



NV Energy, Inc. and Subsidiaries

**Consolidated Financial Statements (Unaudited)
as of and for the
Years Ended December 31, 2014 and 2013**

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 data)

		As of December 31,	
		2014	2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$	262	\$ 287
Accounts receivable, net		349	383
Inventories		128	116
Regulatory assets		89	96
Deferred income taxes		178	189
Other current assets		52	52
Total current assets		<u>1,058</u>	<u>1,123</u>
Property, plant and equipment, net		9,643	9,544
Regulatory assets		1,510	1,471
Other assets		<u>103</u>	<u>134</u>
Total assets		<u><u>\$ 12,314</u></u>	<u><u>\$ 12,272</u></u>
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	\$	294	\$ 314
Accrued interest		78	79
Accrued property, income and other taxes		42	50
Regulatory liabilities		78	111
Current portion of long-term debt		265	217
Customer deposits		71	72
Other current liabilities		49	44
Total current liabilities		<u>877</u>	<u>887</u>
NV Energy long-term debt		315	315
Subsidiary long-term debt		4,511	4,755
Regulatory liabilities		589	555
Deferred income taxes		1,858	1,706
Other long-term liabilities		430	421
Total liabilities		<u>8,580</u>	<u>8,639</u>
Commitments and contingencies (Note 16)			
Equity:			
Common stock - 1,000 shares authorized, \$.01 par value, 1 share issued and outstanding		—	—
Other paid-in capital		3,128	3,023
Retained earnings		610	619
Accumulated other comprehensive loss, net		(4)	(9)
Total equity		<u>3,734</u>	<u>3,633</u>
Total liabilities and equity		<u><u>\$ 12,314</u></u>	<u><u>\$ 12,272</u></u>

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

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

	Years Ended December 31,	
	2014	2013
Operating revenue:		
Regulated electric	\$ 3,116	\$ 2,840
Regulated natural gas	125	121
Total operating revenue	<u>3,241</u>	<u>2,961</u>
Operating costs and expenses:		
Cost of fuel, energy and capacity	1,437	1,127
Natural gas purchased for resale	76	72
Operating and maintenance	568	659
Depreciation and amortization	379	400
Property and other taxes	68	64
Merger-related	—	81
Total operating costs and expenses	<u>2,528</u>	<u>2,403</u>
Operating income	<u>713</u>	<u>558</u>
Other income (expense):		
Interest expense	(292)	(302)
Allowance for borrowed funds	3	8
Allowance for equity funds	4	10
Other, net	35	(5)
Total other income (expense)	<u>(250)</u>	<u>(289)</u>
Income before income tax expense	463	269
Income tax expense	167	107
Net income	<u>\$ 296</u>	<u>\$ 162</u>

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

	Common Stock		Treasury Stock		Other	Retained	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in	Earnings	Other	Equity
					Capital		Comprehensive	
							Loss, Net	
Balance, December 31, 2012	236	\$ 236	(1)	\$ (17)	\$ 2,713	\$ 635	\$ (10)	\$ 3,557
Net income	—	—	—	—	—	162	—	162
Employee benefits	—	—	1	16	(1)	—	—	15
Repurchased common stock, \$1 par value	—	—	—	(6)	—	—	—	(6)
Treasury stock retired	—	—	—	7	(7)	—	—	—
Dividends declared	—	—	—	—	—	(178)	—	(178)
Cancellation of common stock, \$1 par value	(236)	(236)	—	—	236	—	—	—
Issuance of common stock, \$0.01 par value	—	—	—	—	—	—	—	—
Contribution from parent	—	—	—	—	82	—	—	82
Other	—	—	—	—	—	—	1	1
Balance, December 31, 2013	—	—	—	—	3,023	619	(9)	3,633
Net income	—	—	—	—	—	296	—	296
Contribution from parent	—	—	—	—	105	—	—	105
Dividends declared	—	—	—	—	—	(305)	—	(305)
Other	—	—	—	—	—	—	5	5
Balance, December 31, 2014	—	\$ —	—	\$ —	\$ 3,128	\$ 610	\$ (4)	\$ 3,734

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)

	Years Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 296	\$ 162
Adjustments to reconcile net income to net cash from operating activities:		
Loss on nonrecurring items	29	—
Depreciation and amortization	379	400
Deferred income taxes and amortization of investment tax credits	167	111
Allowance for equity funds	(4)	(10)
Amortization of deferred energy	98	(97)
Deferred energy	(74)	(129)
Amortization of other regulatory assets	81	166
Other, net	45	139
Changes in other assets and liabilities:		
Accounts receivable and other assets	(46)	(29)
Inventories	(12)	27
Accounts payable and other liabilities	(23)	(45)
Net cash flows from operating activities	<u>936</u>	<u>695</u>
Cash flows from investing activities:		
Capital expenditures	(557)	(372)
Proceeds from sale of asset	—	14
Other, net	—	2
Net cash flows from investing activities	<u>(557)</u>	<u>(356)</u>
Cash flows from financing activities:		
Proceeds from issuance of subsidiary long-term debt, net of costs	—	245
Repayments of NV Energy long-term debt	(195)	—
Repayments of subsidiary long-term debt	(8)	(480)
Issuance of common stock	—	3
Common stock repurchased	—	(6)
Contribution from parent	105	66
Dividends paid	(305)	(178)
Other, net	(1)	—
Net cash flows from financing activities	<u>(404)</u>	<u>(350)</u>
Net change in cash and cash equivalents	(25)	(11)
Cash and cash equivalents at beginning of period	287	298
Cash and cash equivalents at end of period	<u>\$ 262</u>	<u>\$ 287</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, which do business as NV Energy, are public utilities that provide electric service to 1.2 million regulated retail electric customers and 0.2 million regulated retail natural gas customers in 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. ("Berkshire Hathaway").

On December 19, 2013, the merger contemplated by the Agreement and Plan of Merger dated May 29, 2013 among BHE, Silver Merger Sub, Inc. ("Merger Sub"), BHE's wholly owned subsidiary, and NV Energy, whereby Merger Sub was merged into NV Energy and NV Energy became an indirect wholly owned subsidiary of BHE ("BHE Merger") was completed. The total purchase price was \$5.6 billion, or \$23.75 per share for 100% of NV Energy's outstanding common stock.

The transaction was approved by the board of directors of both NV Energy and BHE and the shareholders of NV Energy and received various regulatory approvals, including the Public Utilities Commission of Nevada ("PUCN"), subject to certain stipulations. The stipulations included, among others:

- A one-time bill credit to retail customers of the Nevada Utilities totaling \$20 million credited to retail customers over one billing cycle beginning within 30 days of the close of the BHE Merger.
- BHE and NV Energy agreed to not seek recovery of the acquisition premium, transaction and transition costs associated with the BHE Merger from customers.
- NV Energy agreed that it will base any rate case filed in 2014 by Nevada Power with a requested change in revenue requirement on a return on common equity not to exceed 10%.
- The Nevada Utilities will not seek to collect lost revenues as described in section 704.9524 of the Nevada Administrative Code for calendar year 2013 in 2014 rates, and will not seek collection of lost revenues in excess of 50% of what the Nevada Utilities could otherwise request for calendar year 2014 in 2015 rates. NV Energy also agreed to work cooperatively with PUCN staff and the Nevada Bureau of Consumer Protection ("BCP") to develop a legislative or administrative alternative to the current mechanism that would retain the objective of encouraging investment in energy efficiency and that is acceptable to NV Energy, PUCN staff and the BCP. NV Energy and the BCP also agree to work in good faith to have a legislative or administrative alternative adopted.
- Normal rate case rules and procedures apply to costs and revenues, and any under or over earnings will accrue to the Nevada Utilities until the next rate case filing after 2014, subject to specified adjustments for intercompany charges from BHE and its other subsidiaries as described in the PUCN Joint Application and the exclusion of the \$20 million one-time bill credit from the test period. The commitment does not preclude parties from proposing any other adjustments to test year or certification period results.

(2) Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The Consolidated Financial Statements include the accounts of NV Energy and its subsidiaries in which it holds a controlling financial interest as of the financial statement date. Intercompany accounts and transactions have been eliminated. The Company has evaluated subsequent events through March 25, 2015.

The impacts of acquisition accounting from the BHE Merger were not reflected on the Consolidated Financial Statements of the Company.

Use of Estimates in Preparation of Financial Statements

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates include, but are not limited to, the effects of regulation; recovery of long-lived assets; certain assumptions made in accounting for pension and other postretirement benefits; asset retirement obligations ("AROs"); income taxes; unbilled revenue; valuation of certain financial assets and liabilities, including derivative contracts; and accounting for contingencies. Actual results may differ from the estimates used in preparing the Consolidated Financial Statements.

Accounting for the Effects of Certain Types of Regulation

The Nevada Utilities prepare their Consolidated Financial Statements in accordance with authoritative guidance for regulated operations, which recognizes the economic effects of regulation. Accordingly, the Nevada Utilities defer the recognition of certain costs or income if it is probable that, through the ratemaking process, there will be a corresponding increase or decrease in future regulated rates. Regulatory assets and liabilities are established to reflect the impacts of these deferrals, which will be recognized in earnings in the periods the corresponding changes in regulated rates occur.

The Nevada Utilities continually evaluate the applicability of the guidance for regulated operations and whether its regulatory assets and liabilities are probable of inclusion in future regulated rates by considering factors such as a change in the regulator's approach to setting rates from cost-based ratemaking to another form of regulation, other regulatory actions or the impact of competition that could limit the Nevada Utilities' ability to recover their costs. The Nevada Utilities believe the application of the guidance for regulated operations is appropriate and its existing regulatory assets and liabilities are probable of inclusion in future regulated rates. The evaluation reflects the current political and regulatory climate at both the federal and state levels. If it becomes no longer probable that the deferred costs or income will be included in future regulated rates, the related regulatory assets and liabilities will be written off to net income, returned to customers or re-established as accumulated other comprehensive income (loss) ("AOCI").

Fair Value Measurements

As defined under GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Different valuation techniques may be appropriate under the circumstances to determine the value that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not under duress. Nonperformance or credit risk is considered in determining fair value. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

Cash Equivalents and Restricted Cash and Investments

Cash equivalents consist of funds invested in money market mutual funds, United States Treasury Bills and other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions. Restricted amounts are included in other current assets on the Consolidated Balance Sheets.

Allowance for Doubtful Accounts

Accounts receivable are stated at the outstanding principal amount, net of an estimated allowance for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectibility of amounts owed to the Company by its customers. This assessment requires judgment regarding the ability of customers to pay or the outcome of any pending disputes. The Company also has the ability to assess deposits on customers who have delayed payments or who are deemed to be a credit risk. The change in the balance of the allowance for doubtful accounts, which is included in accounts receivable, net on the Consolidated Balance Sheets, is summarized as follows for the years ended December 31 (in millions):

	2014	2013
Beginning balance	\$ 9	\$ 9
Charged to operating costs and expenses	16	17
Write-offs, net	(9)	(17)
Ending balance	<u>\$ 16</u>	<u>\$ 9</u>

Derivatives

The Company employs a number of different derivative contracts, which may include forwards, futures, options, swaps and other agreements, to manage its commodity price and interest rate risk. Derivative contracts are recorded on the Consolidated Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchases or normal sales and qualify for the exception afforded by GAAP. Derivative balances reflect offsetting permitted under master netting agreements with counterparties and cash collateral paid or received under such agreements. Cash collateral received from or paid to counterparties to secure derivative contract assets or liabilities in excess of amounts offset is included in other current assets on the Consolidated Balance Sheets.

Commodity derivatives used in normal business operations that are settled by physical delivery, among other criteria, are eligible for and may be designated as normal purchases or normal sales. Normal purchases or normal sales contracts are not marked-to-market and settled amounts are recognized as cost of fuel, energy and capacity or natural gas purchased for resale on the Consolidated Statements of Operations.

For the Company's derivatives not designated as hedging contracts, the settled amount is generally included in regulated rates. Accordingly, the net unrealized gains and losses associated with interim price movements on contracts that are accounted for as derivatives and probable of inclusion in regulated rates are recorded as regulatory assets and liabilities.

For the Company's derivatives designated as hedging contracts, the Company formally assesses, at inception and thereafter, whether the hedging contract is highly effective in offsetting changes in the hedged item. The Company formally documents hedging activity by transaction type and risk management strategy.

Changes in the estimated fair value of a derivative contract designated and qualified as a cash flow hedge, to the extent effective, are included on the Consolidated Statements of Changes in Equity as AOCI, net of tax, until the contract settles and the hedged item is recognized in earnings. The Company discontinues hedge accounting prospectively when it has determined that a derivative contract no longer qualifies as an effective hedge, or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative contract no longer qualifies as an effective hedge, future changes in the estimated fair value of the derivative contract are charged to earnings. Gains and losses related to discontinued hedges that were previously recorded in AOCI will remain in AOCI until the contract settles and the hedged item is recognized in earnings, unless it becomes probable that the hedged forecasted transaction will not occur at which time associated deferred amounts in AOCI are immediately recognized in earnings.

Inventories

Inventories consist mainly of materials and supplies totaling \$90 million and \$84 million as of December 31, 2014 and 2013, respectively, and fuel, which includes coal stocks, stored natural gas and fuel oil, totaling \$38 million and \$32 million as of December 31, 2014 and 2013, respectively. The cost is determined using the average cost method. Materials are charged to inventory when purchased and are expensed or capitalized to construction work in process, as appropriate, when used. Fuel costs are recovered from retail customers through the base tariff energy rates and deferred energy accounting adjustment charges approved by the PUCN.

General

Additions to property, plant and equipment are recorded at cost. The Nevada Utilities capitalize all construction-related material, direct labor and contract services, as well as indirect construction costs. Indirect construction costs include debt allowance for funds used during construction ("AFUDC"), and equity AFUDC, as applicable. The cost of additions and betterments are capitalized, while costs incurred that do not improve or extend the useful lives of the related assets are generally expensed. The cost of repairs and minor replacements are charged to expense when incurred with the exception of costs for generation plant maintenance under certain long-term service agreements. Costs under these agreements are expensed straight-line over the term of the agreements as approved by the PUCN.

Depreciation and amortization are generally computed by applying the composite or straight-line method based on either estimated useful lives or mandated recovery periods as prescribed by the Nevada Utilities' various regulatory authorities. Depreciation studies are completed by the Nevada Utilities to determine the appropriate group lives, net salvage and group depreciation rates. These studies are reviewed and rates are ultimately approved by the applicable regulatory commission. Net salvage includes the estimated future residual values of the assets and any estimated removal costs recovered through approved depreciation rates. Estimated removal costs are recorded as either a cost of removal regulatory liability or an ARO liability on the Consolidated Balance Sheets, depending on whether the obligation meets the requirements of an ARO. As actual removal costs are incurred, the associated liability is reduced.

Generally when the Nevada Utilities retire or sell a component of regulated property, plant and equipment, it charges the original cost, net of any proceeds from the disposition, to accumulated depreciation. Any gain or loss on disposals of all other assets is recorded through earnings.

Debt and equity AFUDC, which represent the estimated costs of debt and equity funds necessary to finance the construction of regulated facilities, are capitalized as a component of property, plant and equipment, with offsetting credits to the Consolidated Statements of Operations. The rate applied to construction costs is the lower of the PUCN allowed rate of return and rates computed based on guidelines set forth by the Federal Energy Regulatory Commission ("FERC"). After construction is completed, the Nevada Utilities are permitted to earn a return on these costs as a component of the related assets, as well as recover these costs through depreciation expense over the useful lives of the related assets. Nevada Power's AFUDC rate used during both 2014 and 2013 was 8.09%. Sierra Pacific's AFUDC rate used during 2014 and 2013 was 7.58% and 7.86%, respectively, for electric; 4.96% and 5.15%, respectively, for natural gas; and 7.28% and 7.59%, respectively, for common facilities.

Asset Retirement Obligations

The Nevada Utilities recognize AROs when it has a legal obligation to perform decommissioning, reclamation or removal activities upon retirement of an asset. The Nevada Utilities' AROs are primarily associated with its generating facilities. The fair value of an ARO liability is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made, and is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset. Subsequent to the initial recognition, the ARO liability is adjusted for any revisions to the original estimate of undiscounted cash flows (with corresponding adjustments to property, plant and equipment, net) and for accretion of the ARO liability due to the passage of time. The difference between the ARO liability, the corresponding ARO asset included in property, plant and equipment, net and amounts recovered in rates to satisfy such liabilities is recorded as a regulatory asset or liability on the Consolidated Balance Sheets.

Management's methodology to assess its legal obligation includes an inventory of assets by the Company's system and components and a review of rights-of-way and easements, regulatory orders, leases and federal, state and local environmental laws. Management identified legal obligations to retire generation plant assets specified in land leases for Nevada Power's jointly-owned Navajo Generating Station and the Higgins Generating Station. Provisions of the lease require the lessees to remove the facilities upon request of the lessors at the expiration of the leases. Additionally, management has determined evaporative ponds, dry ash landfills, fuel storage tanks, asbestos and oils treated with Poly Chlorinated Biphenyl have met the requirements for an ARO.

Impairment

The Company evaluates long-lived assets for impairment, including property, plant and equipment, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable or the assets are being held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus the residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value

exceeds the estimated recoverable amounts, the asset is written down to the estimated fair value and any resulting impairment loss is reflected on the Consolidated Statements of Operations. As substantially all property, plant and equipment was used in regulated businesses as of December 31, 2014, the impacts of regulation are considered when evaluating the carrying value of regulated assets.

Income Taxes

Berkshire Hathaway commenced including the Company in its United States federal income tax return on December 20, 2013 in connection with the BHE Merger. Prior to December 20, 2013, the Company filed a consolidated United States federal income tax return. Consistent with established regulatory practice, the Company's provision for income taxes has been computed on a separate return basis.

Deferred income tax assets and liabilities are based on differences between the financial statement and income tax basis of assets and liabilities using estimated income tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income ("OCI") are charged or credited directly to OCI. Changes in deferred income tax assets and liabilities that are associated with income tax benefits and expense for certain property-related basis differences and other various differences that the Nevada Utilities are required to pass on to their customers are charged or credited directly to a regulatory asset or liability. As of December 31, 2014 and 2013, these amounts were recognized as regulatory assets of \$250 million and \$261 million, respectively, and regulatory liabilities of \$11 million and \$13 million, respectively, and will be included in regulated rates when the temporary differences reverse. Other changes in deferred income tax assets and liabilities are included as a component of income tax expense. Changes in deferred income tax assets and liabilities attributable to changes in enacted income tax rates are charged or credited to income tax expense or a regulatory asset or liability in the period of enactment. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount that is more-likely-than-not to be realized. Investment tax credits are generally deferred and amortized over the estimated useful lives of the related properties.

In determining the Company's income taxes, management is required to interpret complex income tax laws and regulations, which includes consideration of regulatory implications imposed by the Company's various regulatory jurisdictions. The Company's income tax returns are subject to continuous examinations by federal, state and local income tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial Statements from such a position are measured based on the largest benefit that is more-likely-than-not to be realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local income tax examinations is uncertain, the Company believes it has made adequate provisions for these income tax positions. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material impact on the Company's consolidated financial results.

Revenue Recognition

Revenue is recognized as electricity or natural gas is delivered or services are provided. Revenue recognized includes billed and unbilled amounts. As of December 31, 2014 and 2013, unbilled revenue was \$168 million, and is included in accounts receivable, net on the Consolidated Balance Sheets. Rates are established by regulators or contractual arrangements. When preliminary rates are permitted to be billed prior to final approval by the applicable regulator, certain revenue collected may be subject to refund and a liability for estimated refunds is accrued. The Company records sales, franchise and excise taxes collected directly from customers and remitted directly to the taxing authorities on a net basis on the Consolidated Statements of Operations.

Nevada Utilities primarily buy energy and natural gas to satisfy its customer load requirements. Due to changes in retail customer load requirements, the Nevada Utilities may not take physical delivery of the energy or natural gas. The Nevada Utilities' may sell the excess energy or natural gas to the wholesale market. In such instances, it is the Nevada Utilities' policy to record such sales net in cost of fuel, energy and capacity.

Unamortized Debt Premiums, Discounts and Financing Costs

Premiums, discounts and financing costs incurred for the issuance of long-term debt are amortized over the term of the related financing using the effective interest method.

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 December 2013, the FASB issued ASU No. 2013-12, which clarifies which entities qualify for accounting and reporting relief under the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies. Beginning in 2014, one definition of a public business entity will be applicable for new accounting guidance issued by the FASB. ASU 2013-12 does not eliminate the use of multiple definitions in the Accounting Standards Codification Master Glossary, as they will continue to be effective for accounting guidance issued prior to 2014. The Company adopted this guidance on January 1, 2014 and has elected to report as a public business entity. The adoption of this guidance did not impact the Company's 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. 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) Merger-Related Activities

On December 17, 2013, the PUCN approved the Joint Application related to the BHE Merger filed by BHE and NV Energy, subject to certain stipulations. The stipulations included, among others, a one-time bill credit to retail customers of the Nevada Utilities totaling \$20 million credited to retail customers over one billing cycle beginning within 30 days of the close of the BHE Merger. The bill credit was included as a reduction to operating revenue on the Consolidated Statements of Operations for the year ended December 31, 2013.

The Company incurred costs totaling \$81 million related to the BHE Merger, consisting of: (i) \$22 million for amounts payable under NV Energy's change in control policy; (ii) \$26 million for accelerated vesting and stock compensation under NV Energy's long-term incentive plan ("LTIP"); (iii) \$21 million for investment banker fees paid by NV Energy and (iv) \$12 million for legal and other expenses. The costs were included in merger-related expenses on the Consolidated Statements of Operations for the year ended December 31, 2013.

Included in other expense on the Consolidated Statements of Operations for the year ended December 31, 2013 is \$16 million for donations made by BHE in the form of stock to NV Energy's charitable foundation on NV Energy's behalf.

On December 19, 2013, BHE contributed \$66 million in cash to NV Energy to fund payments required under NV Energy's LTIP pursuant to the Merger Agreement.

(4) Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following as of December 31 (in millions):

	<u>Depreciable Life</u>	<u>2014</u>	<u>2013</u>
Utility plant in-service:			
Electric generation	25 - 125 years	\$ 5,070	\$ 4,859
Electric distribution	20 - 70 years	4,339	4,225
Electric transmission	45 - 70 years	2,476	2,428
Electric intangible plant	5 - 65 years	792	783
Natural gas distribution	40 - 70 years	366	357
Natural gas intangible plant	8 - 10 years	13	13
Common general	5 - 65 years	234	213
Utility plant in-service		<u>13,290</u>	<u>12,878</u>
Accumulated depreciation and amortization		<u>(3,899)</u>	<u>(3,519)</u>
Utility plant in-service, net		<u>9,391</u>	<u>9,359</u>
Other non-regulated, net of accumulated depreciation and amortization	5 - 65 years	<u>4</u>	<u>3</u>
		<u>9,395</u>	<u>9,362</u>
Construction work-in-progress		<u>248</u>	<u>182</u>
Property, plant and equipment, net		<u>\$ 9,643</u>	<u>\$ 9,544</u>

Almost all of the Company's plant is subject to the ratemaking jurisdiction of the PUCN and the FERC. Nevada Power's depreciation and amortization, as authorized by the PUCN, stated as a percentage of the depreciable property balances as of December 31, 2014 and 2013 was 3.3%, while Sierra Pacific's depreciation and amortization as of December 31, 2014 and 2013 was 3.0%. The Nevada Utilities are required to file a utility plant depreciation study every six years as a companion filing with the triennial general rate case filings.

Construction work-in-progress is related to the construction of regulated assets.

Impairment of Regulated Assets Not In Rates

The Nevada Utilities recorded an impairment charge of \$41 million and \$35 million in operating and maintenance on the Consolidated Statements of Operations for the years ended December 31, 2014 and 2013, respectively, related to the recovery of certain assets not currently in rates. Included in the 2014 impairment is \$27 million related to the settlement of the 2014 Nevada Power general rate case and the related Sierra Pacific companion filing.

(5) Regulatory Matters

Regulatory assets represent costs that are expected to be recovered in future rates. The Nevada Utilities' regulatory assets reflected on the Consolidated Balance Sheets consist of the following as of December 31 (in millions):

	Weighted Average Remaining Life	2014	2013
Deferred income taxes ⁽¹⁾	29 years	\$ 250	\$ 261
Employee benefit plans ⁽²⁾	10 years	212	173
Merger costs from 1999 merger	31 years	236	245
Abandoned projects	5 years	158	174
Deferred excess energy costs	1 year	161	176
Decommissioning costs	7 years	114	25
Asset retirement obligations	8 years	92	108
Legacy meters	16 years	89	89
Deferred operating costs	28 years	61	63
Loss on reacquired debt	19 years	57	62
ON Line deferral	37 years	40	—
Demand side resources	3 years	43	70
Unrealized loss on regulated derivative contracts	3 years	31	47
Other	Various	55	74
Total regulatory assets		<u>\$ 1,599</u>	<u>\$ 1,567</u>
Reflected as:			
Current assets		\$ 89	\$ 96
Other assets		1,510	1,471
Total regulatory assets		<u>\$ 1,599</u>	<u>\$ 1,567</u>

(1) Amounts represent income tax benefits related to accelerated tax depreciation and certain property-related basis differences that were previously flowed through to customers and will be included in regulated rates when the temporary differences reverse.

(2) Represents amounts not yet recognized as a component of net periodic benefit cost that are expected to be included in regulated rates when recognized.

The Company had regulatory assets not earning a return on investment of \$1.0 billion and \$730 million as of December 31, 2014 and 2013, respectively, primarily related to deferred income taxes, merger costs from 1999 merger, a portion of abandoned projects and deferred excess energy costs, asset retirement obligations, legacy meters, deferred operating costs, loss on reacquired debt, and unrealized loss on regulated derivative contracts.

Regulatory liabilities represent income to be recognized or amounts to be returned to customers in future periods. The Company's regulatory liabilities reflected on the Consolidated Balance Sheets consist of the following as of December 31 (in millions):

	Weighted Average Remaining Life	2014	2013
Cost of removal ⁽¹⁾	38 years	\$ 528	\$ 492
Renewable energy program	1 year	47	42
Energy efficiency program	1 year	32	69
Deferred income taxes	10 year	11	13
Other	Various	49	50
Total regulatory liabilities		<u>\$ 667</u>	<u>\$ 666</u>
Reflected as:			
Current liabilities		\$ 78	\$ 111
Other long-term liabilities		589	555
Total regulatory liabilities		<u>\$ 667</u>	<u>\$ 666</u>

(1) Amounts represent estimated costs, as accrued through depreciation rates and exclusive of ARO liabilities, of removing regulated property, plant and equipment in accordance with accepted regulatory practices. Amounts are deducted from rate base or otherwise accrue a carrying cost.

Deferred Energy

Nevada statutes permit regulated utilities to adopt deferred energy accounting procedures. The intent of these procedures is to ease the effect on customers of fluctuations in the cost of purchased natural gas, fuel and electricity and are subject to annual prudence review by the PUCN.

Under deferred energy accounting, to the extent actual fuel and purchased power costs exceed fuel and purchased power costs recoverable through current rates that excess is not recorded as a current expense on the Consolidated Statements of Operations but rather is deferred and recorded as a regulatory asset on the Consolidated Balance Sheets and is included in the table above as deferred excess energy costs. Conversely, a regulatory liability is recorded to the extent fuel and purchased power costs recoverable through current rates exceed actual fuel and purchased power costs and is included in the table above as deferred energy over collected. These excess amounts are reflected in quarterly adjustments to rates and recorded as cost of fuel, energy and capacity in future time periods.

Energy Efficiency Implementation Rates and Energy Efficiency Program Rates

In July 2010, regulations were adopted by the PUCN that authorizes an electric utility to recover lost revenue that is attributable to the measurable and verifiable effects associated with the implementation of efficiency and conservation programs approved by the PUCN through energy efficiency implementation rates ("EEIR"). As a result, the Nevada Utilities file annually in March to adjust energy efficiency program rates and EEIR for over- or under-collected balances, which are effective in October of the same year.

In March 2013, the Nevada Utilities filed applications with the PUCN for the twelve-month period ended December 31, 2012 to reset EEIR elements. In September 2013, the PUCN issued an order indicating that EEIR revenue should not contribute to the Nevada Utilities earning more than its authorized rate of return. As the Nevada Utilities earned in excess of its authorized rate of return in 2012, the PUCN disallowed approximately \$16 million in EEIR revenue (including carrying charges) and the Nevada Utilities recorded a charge to operating and maintenance on the Consolidated Statements of Operations for the year ended December 31, 2013.

The PUCN's final order approving the BHE Merger stipulated that the Nevada Utilities will not seek recovery of any lost revenue for calendar year 2013 and, for the calendar year 2014 in an amount that exceeds 50% of the lost revenue that the Nevada Utilities could otherwise request. As a result, for the year ended December 31, 2013, the Nevada Utilities have not recorded revenue for EEIR and have recorded a regulatory liability to refund to customers amounts collected in 2013 of \$17 million, which is included in current regulatory liabilities on the Consolidated Balance Sheets as of December 31, 2013. In February 2014, the Nevada Utilities

filed an application with the PUCN to reset the EEIR and energy efficiency program rates. In June 2014, the PUCN accepted a stipulation to adjust the EEIR, 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 EEIR was 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 EEIR revenue collected. As a result, the Nevada Utilities have deferred recognition of EEIR revenue collected and have recorded a liability of \$13 million, which is included in current regulatory liabilities on the Consolidated Balance Sheets as of December 31, 2014.

General Rate Case

In May 2014, Nevada Power filed a general rate case with the PUCN. In July 2014, the Nevada Power made its certification filing, which requested incremental annual revenue relief in the amount of \$38 million, or an average price increase of 2%. In October 2014, the Nevada Power reached a settlement agreement with certain parties agreeing to a zero increase in the revenue requirement. In October 2014, the PUCN issued an order in the general rate case filing that accepted the settlement. The order provides for increases in the fixed-monthly service charge for customers with a corresponding decrease in the base tariff general rate effective January 1, 2015. As a result of the order, the Nevada Power recorded \$15 million in asset impairments related to property, plant and equipment and \$5 million of regulatory asset impairments, which are included in operating and maintenance on the Consolidated Statements of Operations for the year ended December 31, 2014. Additionally, the Nevada Power recorded a \$5 million gain in other, net on the Consolidated Statement of Operations for the year ended December 31, 2014 related to the disposition of property. In October 2014, a party filed a petition for reconsideration of the PUCN order. In November 2014, the PUCN granted the petition for reconsideration and reaffirmed the order issued in October 2014.

In connection with Nevada Power's general rate case filing in May 2014, as required by the PUCN, Sierra Pacific made a "companion filing" for the purpose of documenting the costs and benefits of Sierra Pacific's investment in the advanced service delivery program. In October 2014, the PUCN issued an order in the companion filing issued with the general rate case order that, among other things, provided for the implementation of new rates effective January 1, 2015 to begin recovery of costs associated with advance service delivery. The recovery of advanced service delivery costs will increase annual revenue approximately \$10 million. As a result of the PUCN order in the companion filing issued with the Nevada Power general rate case order, Sierra Pacific recorded \$7 million in asset impairments related to property, plant and equipment and \$1 million of regulatory asset impairments, which are included in operating and maintenance on the Consolidated Statements of Operations for the year ended December 31, 2014.

2013 FERC Transmission Rate Case

In May 2013, the Nevada Utilities filed an application with the 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. In August 2013, the FERC granted the companies' 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.

In September 2014, the Nevada Utilities filed an unopposed settlement offer with the FERC on behalf of NV Energy and the intervening parties providing rate relief of \$4 million. The settlement offer would resolve all outstanding issues related to this case. In addition, a preliminary order from the administrative law judge granting the motion for interim rate relief was issued, which authorizes the Nevada Utilities to institute the interim rates effective September 1, 2014, and begin billing transmission customers under the settlement rates for service provided on and after that date. In January 2015, the FERC approved the settlement and refunds will be processed in 2015. As of December 31, 2014, the Nevada Utilities accrued \$9 million for amounts subject to rate refund, which is included in other current liabilities on the Consolidated Balance Sheets.

(6) Credit Facilities

Nevada Power

Nevada Power has a \$400 million secured credit facility expiring in March 2018. The credit facility, which is for general corporate purposes for the issuance of letters of credit, has a variable interest rate based on London Interbank Offered Rate ("LIBOR") or a base rate, at Nevada Power's option, plus a spread that varies based on Nevada Power's credit ratings for its senior secured long-term debt securities. As of December 31, 2014 and 2013, Nevada Power had no borrowings outstanding under the credit facility. Amounts due under Nevada Power's credit facility are collateralized by Nevada Power's general and refunding mortgage bonds. The credit facility requires 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.

Sierra Pacific

Sierra Pacific has a \$250 million secured credit facility expiring in March 2018. The credit facility, which is for general corporate purposes for the issuance of letters of credit, 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 credit ratings for its senior secured long-term debt securities. As of December 31, 2014 and 2013, Sierra Pacific had no borrowings outstanding under the credit facility. Amounts due under Sierra Pacific's credit facility are collateralized by Sierra Pacific's general and refunding mortgage bonds. The credit facility requires 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.

(7) NV Energy Long-Term Debt

NV Energy's long-term debt consists of the following as of December 31 (in millions):

	<u>Par Value</u>	<u>2014</u>	<u>2013</u>
Variable-rate Term Loan, due 2014 ⁽¹⁾	\$ —	\$ —	\$ 195
6.25% Senior Notes, due 2020	315	315	315
Total NV Energy long-term debt	<u>\$ 315</u>	<u>\$ 315</u>	<u>\$ 510</u>
Reflected as:			
Current liabilities		\$ —	\$ 195
Other long-term liabilities		315	315
Total NV Energy long-term debt		<u>\$ 315</u>	<u>\$ 510</u>

- (1) The term loan has a variable interest rate based on LIBOR plus a spread that varies during the term of the agreement. The variable interest rate as of December 31, 2013 was 1.92%. The Company had entered into an interest rate swap that fixed the interest rate at 2.56% as of December 31, 2013.

(8) Subsidiary Long-Term Debt

NV Energy's subsidiary long-term debt consists of the following, including unamortized premiums and discounts, as of December 31 (dollars in millions):

	<u>Par Value</u>	<u>2014</u>	<u>2013</u>
Nevada Power:			
General and Refunding Mortgage Securities:			
5.875% Series L, due 2015	\$ 250	\$ 250	\$ 250
5.950% Series M, due 2016	210	210	210
6.500% Series O, due 2018	325	323	324
6.500% Series S, due 2018	499	498	499
7.125% Series V, due 2019	500	501	501
6.650% Series N, due 2036	367	361	363
6.750% Series R, due 2037	349	348	349
5.375% Series X, due 2040	250	249	249
5.450% Series Y, due 2041	250	250	250
Variable-rate series (2014-0.455% to 0.464%, 2013-0.454% to 0.459%):			
Pollution Control Revenue Bonds Series 2006A, due 2032	38	38	38
Pollution Control Revenue Bonds Series 2006, due 2036	38	38	38
Capital and financial lease obligations - 2.750% to 11.600%, due through 2054	510	510	506
Total Nevada Power long-term debt	<u>3,586</u>	<u>3,576</u>	<u>3,577</u>
Sierra Pacific:			
General and Refunding Mortgage Securities:			
6.000% Series M, due 2016	450	452	453
3.375% Series T, due 2023	250	250	250
6.750% Series P, due 2037	252	258	259
Variable-rate series (2014-0.464% to 0.466%, 2013-0.459% to 0.463%):			
Pollution Control Revenue Bonds Series 2006A, due 2031	58	58	58
Pollution Control Revenue Bonds Series 2006B, due 2036	75	75	75
Pollution Control Revenue Bonds Series 2006C, due 2036	81	81	81
Capital and financial lease obligations - 2.700% to 8.814%, due through 2054	26	26	24
Total Sierra Pacific long-term debt	<u>1,192</u>	<u>1,200</u>	<u>1,200</u>
Total subsidiary long-term debt	<u><u>\$ 4,778</u></u>	<u><u>\$ 4,776</u></u>	<u><u>\$ 4,777</u></u>
Reflected as:			
Current portion of long-term debt	\$ 265	\$ 22	
Long-term debt	4,511	4,755	
Total subsidiary long-term debt	<u><u>\$ 4,776</u></u>	<u><u>\$ 4,777</u></u>	

The consummation of the BHE Merger also triggered mandatory redemption requirements under financing agreements of the Nevada Utilities. As a result, Nevada Power and Sierra Pacific offered to purchase \$3.0 billion and \$702 million, respectively, of debt at 101% of par. Debt with a par value totaling \$5 million was tendered in January 2014 and paid with cash on hand. The tender offer expired in January 2014.

In November 2013, Nevada Power issued a notice of redemption to the bondholders for its \$125 million, 7.375% Series U General and Refunding Mortgage Securities. In December 2013, Nevada Power redeemed the aggregate principal amount outstanding of \$125 million at 100.7% of the principal amount plus accrued interest with the use of cash on hand.

In July 2013, Nevada Power issued a notice of redemption to the bondholders for its \$100 million Clark County Industrial Development Refunding Revenue Bonds, Series 2000A. In August 2013, Nevada Power redeemed the aggregate principal amount outstanding of \$98 million at 100% of the principal amount plus accrued interest with the use of cash on hand.

In August 2013, Sierra Pacific issued and sold \$250 million of its 3.375% Series T General and Refunding Securities, due 2023. The \$248 million in net proceeds was used, together with cash on hand, to pay at maturity the \$250 million principal amount of its 5.45% Series Q General and Refunding Securities, which matured in September 2013.

Annual Payment on Long-Term Debt

The annual repayments of long-term debt and capital and financial leases for the years beginning January 1, 2015 and thereafter, excluding unamortized premiums and discounts, are as follows (in millions):

	Long-term Debt			Capital and Financial Lease Obligations			Total
	NV Energy	Nevada Power	Sierra Pacific	NV Energy	Nevada Power	Sierra Pacific	
2015	\$ —	\$ 250	\$ —	\$ —	\$ 75	\$ 3	\$ 328
2016	—	210	450	—	73	3	736
2017	—	—	—	—	75	3	78
2018	—	823	—	—	74	3	900
2019	—	500	—	—	76	3	579
Thereafter	315	1,291	716	—	986	46	3,354
Total	315	3,074	1,166	—	1,359	61	5,975
Unamortized premium/(discount)	—	(8)	8	—	—	—	—
Executory costs	—	—	—	—	(148)	—	(148)
Amounts representing interest	—	—	—	—	(701)	(35)	(736)
Total	\$ 315	\$ 3,066	\$ 1,174	\$ —	\$ 510	\$ 26	\$ 5,091

Utility plant of \$3.5 billion and \$1.5 billion is subject to the liens of Nevada Power's and Sierra Pacific's, respectively, indentures under which their respective General and Refunding Mortgage Securities are issued.

Capital and Financial Lease Obligations

- In 1984, Nevada Power entered into a 30-year capital lease for the Pearson Building with five, five-year renewal options beginning in year 2015. In February 2010, Nevada Power amended this capital lease agreement to include the lease of the adjoining parking lot and to exercise three of the five-year renewal options beginning in year 2015. There remain two additional renewal options which could extend the lease an additional ten years. Capital assets of \$28 million and \$39 million were included in property, plant and equipment, net as of December 31, 2014 and 2013, respectively.
- In 2007, Nevada Power entered into a 20-year lease, with three 10-year renewal options, to occupy land and building for its Beltway Complex operations center in southern Nevada. Nevada Power accounts for the building portion of the lease as a capital lease and the land portion of the lease as an operating lease. Nevada Power transferred operations to the facilities in June 2009. Capital assets of \$8 million and \$10 million were included in property, plant and equipment, net as of December 31, 2014 and 2013, respectively.
- Nevada Power has long-term energy purchase contracts which qualify as capital leases. The leases were entered into between the years 1989 and 1990 and firm operation occurred through 1993. The terms of the leases are for 30 years and expire between the years 2022-2023. Capital assets of \$71 million were included in property, plant and equipment, gross as of December 31, 2014 and 2013. Capital assets of \$44 million and \$45 million were included in property, plant and equipment, net as of December 31, 2014 and 2013, respectively.

- The Nevada Utilities have master leasing agreements of which various pieces of equipment qualify as capital leases. The remaining equipment is treated as operating leases. Lease terms average seven years under the master lease agreement. Capital assets of \$4 million and \$3 million were included in property, plant and equipment, net as of December 31, 2014 and 2013, respectively.
- ON Line was placed in-service on December 31, 2013. The Nevada Utilities entered into a long-term transmission use agreement, in which the Nevada Utilities have 25% interest and Great Basin Transmission South, LLC has 75% interest. Refer to Note 5 for additional information. The Nevada Utilities' share of the long-term transmission use agreement and ownership interest is split at 95% and 5%, respectively. The term is for 41 years with the agreement ending December 31, 2054. Payments began on January 31, 2014. ON Line assets of \$440 million and \$441 million were included in property, plant and equipment, net as of December 31, 2014 and 2013, respectively.

(9) 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 and coal market fluctuations primarily through the Nevada Utilities' obligation to serve retail customer load in its regulated service territory. 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 and wholesale electricity that is purchased and sold. 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 is 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, futures, 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 Notes 2, 5, and 10 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):

	Other Current Liabilities	Other Long-term Liabilities	Total
<u>As of December 31, 2014</u>			
Commodity liabilities ⁽¹⁾	\$ (10)	\$ (21)	\$ (31)
<u>As of December 31, 2013</u>			
Commodity liabilities ⁽¹⁾	\$ (9)	\$ (38)	\$ (47)

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

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 December 31 (in millions):

	Unit of Measure	2014	2013
Electricity sales	Megawatt hours	(3)	(4)
Natural gas purchases	Decatherms	161	163
Interest rate swap	US\$	—	195

In October 2011, NV Energy entered into a \$195 million floating for fixed interest rate swap in conjunction with its 3-year Term Loan resulting in an effective interest rate of 2.56% for the remaining tenor of the Term Loan. As of December 31, 2013, the carrying value of the interest rate swap, designated as a cash flow hedge contract was \$1 million and included in other current liabilities on the Consolidated Balance Sheets. The changes in the estimated fair value were included in AOCI on the Consolidated Balance Sheets. 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 Risk

The Company is exposed to counterparty credit risk associated with wholesale energy supply and marketing activities with other utilities, energy marketing companies, financial institutions and other market participants. Credit risk may be concentrated to the extent the Company's counterparties have similar economic, industry or other characteristics and due to direct and indirect relationships among the counterparties. Before entering into a transaction, the Company analyzes the financial condition of each significant wholesale counterparty, establish limits on the amount of unsecured credit to be extended to each counterparty and evaluate the appropriateness of unsecured credit limits on an ongoing basis. To further mitigate wholesale counterparty credit risk, the Company enters into netting and collateral arrangements that may include margining and cross-product netting agreements and obtain third-party guarantees, letters of credit and cash deposits. 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 December 31, 2014, credit ratings from the three recognized credit rating agencies were investment grade.

The aggregate fair value of the Nevada Utilities' derivative contracts in liability positions with specific credit-risk-related contingent features was \$4 million, which represents the amount of collateral to be posted if all credit risk related contingent features for derivative contracts in liability positions had been triggered. The Nevada Utilities' collateral requirements could fluctuate considerably due to market price volatility, changes in credit ratings, changes in legislation or regulation or other factors.

(10) Fair Value Measurements

The carrying value of the Company's cash, certain cash equivalents, receivables, 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 Balance Sheets using inputs from the three levels of the fair value hierarchy. A financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

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

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

	Input Levels for Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2014</u>				
Assets:				
Money market mutual funds ⁽¹⁾	\$ 2	\$ —	\$ —	\$ 2
Investment funds	24	—	—	24
	<u>\$ 26</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 26</u>
Liabilities - commodity derivatives				
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (31)</u>	<u>\$ (31)</u>
<u>As of December 31, 2013</u>				
Assets:				
Money market mutual funds ⁽¹⁾	\$ 70	\$ —	\$ —	\$ 70
Debt securities - corporate obligations	—	2	—	2
Investment funds	27	—	—	27
	<u>\$ 97</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 99</u>
Liabilities:				
Commodity derivatives	\$ —	\$ —	\$ (47)	\$ (47)
Interest rate derivative	—	(1)	—	(1)
	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ (47)</u>	<u>\$ (48)</u>

(1) Amounts are included in other assets on the Consolidated Balance Sheets. The fair value of these money market mutual funds approximates cost.

Derivative contracts are recorded on the Consolidated Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchases or normal sales and qualify for the exception afforded by GAAP. When available, the fair value of derivative contracts is estimated using unadjusted quoted prices for identical contracts in the market in which the Company transacts. When quoted prices for identical contracts are not available, the Company uses forward price curves. Forward price curves represent the Company's estimates of the prices at which a buyer or seller could contract today for delivery or settlement at future dates. The Company bases its forward price curves upon market price quotations, when available, or internally developed and commercial models, with internal and external fundamental data inputs. Market price quotations are obtained from independent brokers, exchanges, direct communication with market participants and actual transactions executed by the Company. Market price quotations are generally readily obtainable for the applicable term of the Company's outstanding derivative contracts; therefore, the Company's forward price curves reflect observable market quotes. Market price quotations for certain electricity and natural gas trading hubs are not as readily obtainable due to the length of the contract. Given that limited market data exists for these contracts, as well as for those contracts that are not actively traded, the Company uses forward price curves derived from internal models based on perceived pricing relationships to major trading hubs that are based on unobservable inputs. The model 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 which utilizes observable inputs for similar instruments based primarily on market price curves. The determination of the fair value for derivative contracts not only includes counterparty risk, but also the impact of the Company's nonperformance risk on its liabilities, which as of December 31, 2014 and 2013, had an immaterial impact to the fair value of its derivative contracts.

As such, the Company considers its derivative contracts to be valued using Level 3 inputs. Refer to Note 9 for further discussion regarding the Company's risk management and hedging activities.

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

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

	2014
Beginning balance	\$ (47)
Changes in fair value recognized in regulatory assets	8
Settlements	8
Ending balance	<u>\$ (31)</u>

The Company's long-term debt is carried at cost on the Consolidated Balance Sheets. 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 as of December 31 (in millions):

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 4,555	\$ 5,915	\$ 4,757	\$ 5,430

(11) Other, Net

Other, net as shown on the Consolidated Statements of Operations for the years ended December 31 consists of the following (in millions):

	2014	2013
Interest and dividend income	\$ 3	\$ 6
Donations	—	(16)
Interest expense on regulatory items	14	(3)
Other	18	8
Total other, net	<u>\$ 35</u>	<u>\$ (5)</u>

(12) Income Taxes

Income tax expense (benefit) consists of the following for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Current – Federal	\$ —	\$ (4)
Deferred:		
Federal	169	115
State	—	(2)
Total deferred	<u>169</u>	<u>113</u>
Investment tax credits	(2)	(2)
Total income tax expense	<u>\$ 167</u>	<u>\$ 107</u>

A reconciliation of the federal statutory income rate to the effective income tax rate applicable to income before income tax expense is as follows for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Federal statutory income tax rate	35%	35%
Effects of ratemaking	1	2
Non-deductible BHE Merger related expenses	—	4
Other	—	(1)
Effective income tax rate	<u>36%</u>	<u>40%</u>

The net deferred income tax liability consists of the following as of December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Deferred income tax assets:		
Federal net operating loss and credit carryforwards	\$ 326	\$ 422
Employee benefits	42	26
Capital and financial leases	187	186
Regulatory liabilities	58	13
Other	76	132
Total deferred income tax assets	<u>689</u>	<u>779</u>
Valuation allowance	(2)	(2)
Total deferred income tax assets, net	<u>687</u>	<u>777</u>
Deferred income tax liabilities:		
Property related items	(1,649)	(1,582)
Regulatory assets	(490)	(399)
Capital and financial leases	(183)	(197)
Other	(45)	(116)
Total deferred income tax liabilities	<u>(2,367)</u>	<u>(2,294)</u>
Net deferred income tax liability	<u>\$ (1,680)</u>	<u>\$ (1,517)</u>
Reflected as:		
Deferred income taxes - current asset	\$ 178	\$ 189
Deferred income taxes - long-term liability	(1,858)	(1,706)
Net deferred income tax liability	<u>\$ (1,680)</u>	<u>\$ (1,517)</u>

The following table provides the Company's federal net operating loss and tax credit carryforwards and expiration dates as of December 31, 2014 (in millions):

Net operating loss carryforwards	\$ 884
Deferred income taxes on federal net operating loss carryforwards	\$ 310
Expiration dates	2030-2034
Other tax credits	\$ 16
Expiration dates	2015-2034

The United States federal jurisdiction is the only significant income tax jurisdiction for the Company. In July 2012, the United States Internal Revenue Service and the Joint Committee on Taxation concluded their examination of the Company with respect to its United States federal income tax returns for December 31, 2005 through December 31, 2008.

A reconciliation of the beginning and ending balances of the Company's net unrecognized tax benefits is as follows for the years ended December 31 (in millions):

	2014	2013
Beginning balance	\$ 6	\$ 7
Reductions for tax positions of prior years	—	(1)
Ending Balance	<u>\$ 6</u>	<u>\$ 6</u>

As of December 31, 2014 and 2013, the Company had unrecognized tax benefits totaling \$3 million that, if recognized, would have an impact on the effective tax rate. The remaining unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits, other than applicable interest and penalties, would not affect the Company's effective income tax rate.

(13) Related Party Transactions

Kern River Gas Transmission Company, an indirect subsidiary of BHE, provided natural gas transportation and other services to Nevada Power of \$68 million for the years ended December 31, 2014 and 2013. As of December 31, 2014 and 2013, the Company's Consolidated Balance Sheets included amounts due to Kern River Gas Transmission Company of \$5 million.

The Company's accounts receivable, net as of December 31, 2013 included \$2 million for amounts due from BHE for merger related reimbursements, which were received in 2014.

The Company provided electricity and other services to PacifiCorp, an indirect subsidiary of BHE, of \$3 million and \$4 million for the years ended December 31, 2014 and 2013, respectively. There were no receivables associated with these services as of December 31, 2014 and 2013. PacifiCorp provided electricity and the sale of renewable energy credits to the Company of \$5 million and \$3 million for the years ended December 31, 2014 and 2013, respectively. Payables associated with these transactions were \$4 million and \$- million as of December 31, 2014 and 2013, respectively.

(14) Retirement Plan and Postretirement Benefits

NV Energy has a single employer defined benefit pension plan covering substantially all employees of NV Energy and the Nevada Utilities. Certain grandfathered and union employees are covered under a benefit formula based on years of service and the employee's highest compensation for a period prior to retirement, while most employees are covered under a cash balance formula with vesting after three years of service. NV Energy also has other postretirement plans, including a defined contribution plan which provides medical and life insurance benefits for certain retired employees, a non-qualified supplemental executive retirement plan ("SERP") and a non-qualified restoration plan ("Restoration") for certain executives.

Recent Plan Changes

SERP and Restoration lump sum payments made in 2014 were in excess of the 2014 interest cost plus service cost for both plans. This resulted in a settlement for the plans and required the immediate recognition of additional expense of \$6.0 million and \$0.9 million for SERP and Restoration, respectively.

NV Energy amended the other postretirement benefit plan in 2014 to cap the subsidies provided to certain participants at 2014 levels. This amendment decreased the benefit obligation by \$1.0 million in 2014. During 2013, NV Energy amended the other postretirement benefit plan for Local 1245 of the International Brotherhood of Electrical Workers to provide a Health Reimbursement Account to participants upon retirement. The Nevada Utilities contribution to the Health Reimbursement Account is based on years of service at retirement up to a maximum contribution of \$2,500 per employee. In addition, any frozen sick leave the employee has at retirement will be converted into additional Health Reimbursement Account dollars based on total sick leave hours and base pay at retirement. This amendment increased the benefit obligation by \$3 million in 2013.

In 2013, NV Energy offered voluntary lump sum pension payouts to former employees not currently of retirement age but eligible for future benefits and certain retiree participants already receiving benefits under NV Energy's pension plan in an effort to reduce NV Energy's future pension obligation. The 2013 payout of \$22 million was paid from plan assets, and was included as benefits paid in the change in benefit obligation table below. No additional voluntary lump sum payouts were offered in 2014.

Net Periodic Benefit Cost

The components of net periodic pension and other postretirement benefit costs are as follows for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Service cost	\$ 17	\$ 21	\$ 2	\$ 3
Interest cost	40	37	8	7
Expected return on plan assets	(43)	(51)	(7)	(7)
Amortization of:				
Prior service credit	(3)	(3)	(4)	(4)
Actuarial loss	10	19	2	3
Curtailment loss	—	1	—	—
Settlement loss	7	—	—	—
Total net periodic benefit cost	<u>\$ 28</u>	<u>\$ 24</u>	<u>\$ 1</u>	<u>\$ 2</u>

The average percentage of NV Energy net periodic benefit costs capitalized during 2014 and 2013 was 36.5% and 33.5%, respectively.

Funded Status

The following table is a reconciliation of the fair value of plan assets for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Plan assets at fair value, beginning of year	\$ 818	\$ 841	\$ 110	\$ 102
Actual return on plan assets	82	29	16	12
Employer contributions	20	22	—	5
Participant contributions	—	—	2	2
Benefits paid ⁽¹⁾	(31)	(74)	(12)	(11)
Settlements	(48)	—	—	—
Plan assets at fair value, end of year	<u>\$ 841</u>	<u>\$ 818</u>	<u>\$ 116</u>	<u>\$ 110</u>

- (1) The 2013 difference between benefits paid in the table of changes in pension obligations and the table of changes in plan assets is due to the \$5 million of special termination benefits being paid out of NV Energy's rabbi trust instead of the plan assets. This increased the benefits paid in the table of changes in pension obligations but did not affect the benefits paid in the table of changes in plan assets.

The following table is a reconciliation of the benefit obligations for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Benefit obligation, beginning of year	\$ 823	\$ 936	\$ 154	\$ 166
Service cost	17	21	2	3
Interest cost	40	37	8	7
Participant contributions	—	—	2	2
Actuarial loss (gain)	100	(98)	(6)	(16)
Benefits paid ⁽¹⁾	(31)	(79)	(12)	(11)
Plan amendments	—	—	(1)	3
Curtailments	—	1	—	—
Settlements	(48)	—	—	—
Special termination benefits	—	5	—	—
Benefit obligation, end of year	<u>\$ 901</u>	<u>\$ 823</u>	<u>\$ 147</u>	<u>\$ 154</u>

- (1) The 2013 difference between benefits paid in the table of changes in pension obligations and the table of changes in plan assets is due to the \$5 million of special termination benefits being paid out of NV Energy's rabbi trust instead of the plan assets. This increased the benefits paid in the table of changes in pension obligations but did not affect the benefits paid in the table of changes in plan assets.

The funded status of the plans and the amounts recognized on the Consolidated Balance Sheets as of December 31 are as follows (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Plan assets at fair value, end of year	\$ 841	\$ 818	\$ 116	\$ 110
Benefit obligation, end of year	901	823	147	154
Funded status	<u>\$ (60)</u>	<u>\$ (5)</u>	<u>\$ (31)</u>	<u>\$ (44)</u>
Amounts recognized on the Consolidated Balance Sheets:				
Other assets	\$ —	\$ 33	\$ —	\$ —
Other current liabilities	(2)	(7)	—	—
Other long-term liabilities	(58)	(31)	(31)	(44)
Amounts recognized	<u>\$ (60)</u>	<u>\$ (5)</u>	<u>\$ (31)</u>	<u>\$ (44)</u>

The SERP and restoration plans have no plan assets; however, the Company has Rabbi trusts that hold corporate-owned life insurance and other investments to provide funding for the future cash requirements of the SERP and restoration plans. The cash surrender value of all of the policies included in the Rabbi trusts, net of amounts borrowed against the cash surrender value, plus the fair market value of other Rabbi trust investments, was \$16 million and \$11 million as of December 31, 2014 and 2013, respectively. These assets are not included in the plan assets in the above table, but are reflected in other assets on the Consolidated Balance Sheets.

The fair value of plan assets, projected benefit obligation and accumulated benefit obligation for (1) pension plans with a projected benefit obligation in excess of the fair value of plan assets and (2) pension plans with an accumulated benefit obligation in excess of the fair value of plan assets as of December 31 are as follows (in millions):

	Pension	
	2014	2013⁽¹⁾
Fair value of plan net assets	<u>\$ 841</u>	<u>\$ —</u>
Projected benefit obligation	<u>\$ 901</u>	<u>\$ 37</u>
Accumulated benefit obligation	<u>\$ 883</u>	<u>\$ 36</u>

(1) The fair value of plan net assets, projected benefit obligation and accumulated benefit obligation for 2013 did not include amounts related to the over funded qualified pension plan since the projected benefit obligation and accumulated benefit obligation did not exceed the plans assets for 2013.

The portion of the funded status of the plans net yet recognized in net periodic benefit cost as of December 31 is as follows (in millions):

	Pension		Other Postretirement	
	2014	2013	2014	2013
Net actuarial loss	\$ (231)	\$ (187)	\$ (18)	\$ (34)
Prior service credit	12	15	19	22
Total	<u>\$ (219)</u>	<u>\$ (172)</u>	<u>\$ 1</u>	<u>\$ (12)</u>

A reconciliation of the amounts not yet recognized as components of net periodic benefit costs for the years ended December 31, 2014 and 2013 is as follows (in millions):

	Regulatory Asset	Accumulated Other Comprehensive Loss	Total
<u>Pension</u>			
Balance, December 31, 2012	\$ 252	\$ 13	\$ 265
Net gain arising during the year	(76)	—	(76)
Net amortization	(15)	(2)	(17)
Total	(91)	(2)	(93)
Balance, December 31, 2013	161	11	172
Net loss arising during the year	59	2	61
Settlement loss	(1)	(6)	(7)
Net amortization	(6)	(1)	(7)
Total	52	(5)	47
Balance, December 31, 2014	<u>\$ 213</u>	<u>\$ 6</u>	<u>\$ 219</u>

	Regulatory Asset (Liability)
<u>Other Postretirement</u>	
Balance, December 31, 2012	\$ 29
Net gain arising during the year	(17)
Balance, December 31, 2013	12
Net gain arising during the year	(15)
Net amortization	2
Total	(13)
Balance, December 31, 2014	<u>\$ (1)</u>

The net actuarial loss and prior service credit that will be amortized in 2015 into net periodic benefit cost are estimated to be as follows (in millions):

	Net Actuarial Loss	Prior Service Credit	Total
Pension	\$ 14	\$ (3)	\$ 11
Other postretirement	—	(4)	(4)
Total	<u>\$ 14</u>	<u>\$ (7)</u>	<u>\$ 7</u>

Plan Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic benefit costs were as follows:

	Benefit Obligations		Net Periodic Benefit Costs	
	2014	2013	2014	2013
Discount rate-pension	4.00%	4.88%	4.88%	4.01%
Discount rate-other benefits	4.00%	5.00%	5.00%	4.09%
Rate of compensation increase	2.75%	3.00%	3.00%	4.00%
Expected long-term return on plan assets-pension	N/A	N/A	5.30%	6.15%
Expected long-term return on plan assets-other benefits	N/A	N/A	5.30-6.85%	6.15-7.10%
Initial health care cost trend rate	8.00%	7.25%	7.25%	7.75%
Ultimate health care cost trend rate	5.00%	4.75%	4.75%	4.75%
Number of years to ultimate trend rate	10	15	15	6

In establishing its assumption as to the expected return on plan assets, the Company utilizes the expected asset allocation and return assumptions for each asset class based on historical performance and forward-looking views of the financial markets.

A one percentage-point change in assumed health care cost trend rates would have the following effect (in millions):

	One Percentage-Point	
	Increase	Decrease
Other postretirement benefit obligation as of December 31, 2014	\$ 2	\$ (2)
Total service and interest cost for the year ended December 31, 2014	\$ —	\$ —

Contributions and Benefit Payments

Employer contributions to the pension and other postretirement benefit plans are expected to be \$20 million and \$- million, respectively, during 2015. Funding to the established pension trusts is based upon the actuarially determined costs of the plans and the requirements of the Internal Revenue Code, the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006, as amended. The Company considers contributing additional amounts from time to time in order to achieve certain funding levels specified under the Pension Protection Act of 2006, as amended. The Company's funding policy for its other postretirement benefit plans is to generally contribute an amount equal to the net periodic benefit cost.

The expected benefit payments to participants in the Company's pension and other postretirement benefit plans for 2015 through 2019 and for the five years thereafter are summarized below (in millions):

	Pension	Other Post-retirement
2015	\$ 56	\$ 10
2016	56	10
2017	56	10
2018	59	10
2019	56	10
2020-2024	311	49

Investment Policy and Asset Allocations

NV Energy's investment policy for its pension and other postretirement benefit plans is to balance risk and return through a diversified portfolio of debt securities, equity securities and other alternative investments. NV Energy also considers the ability of the plan to pay all benefit and expense obligations when due, and to control the costs of administering and managing the plan. NV Energy is committed to prudent investments with ample diversification in terms of asset types, fund strategies, and investment managers.

The target allocations (percentage of plan assets) for the Company's pension and other postretirement benefit plan assets are as follows as of December 31, 2014:

	Pension	Other Post- retirement
	%	%
Debt securities ⁽¹⁾	53-77	40
Equity securities ⁽¹⁾	23-47	60

- (1) For purposes of target allocation percentages and consistent with the plans' investment policy, investment funds are allocated based on the underlying investments in debt and equity securities.

Fair Value Measurements

The following table presents the fair value of plan assets, by major category, for the Company's defined benefit pension plans (in millions):

	Input Levels for Fair Value Measurement ⁽¹⁾			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2014</u>				
Cash equivalents	\$ 15	\$ 22	\$ —	\$ 37
Debt securities:				
United States government obligations	146	—	—	146
International government obligations	—	11	—	11
Corporate obligations	—	186	—	186
Municipal obligations	—	15	—	15
Agency, asset and mortgage-backed obligations	—	10	—	10
Equity securities:				
United States companies	60	—	—	60
International companies	66	—	—	66
Investment funds ⁽²⁾	—	310	—	310
Total pension plan assets	<u>\$ 287</u>	<u>\$ 554</u>	<u>\$ —</u>	<u>\$ 841</u>
	Input Levels for Fair Value Measurement ⁽¹⁾			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2013</u>				
Cash equivalents	\$ 2	\$ 50	\$ —	\$ 52
Debt securities:				
United States government obligations	106	—	—	106
International government obligations	—	3	—	3
Corporate obligations	—	164	—	164
Municipal obligations	—	15	—	15
Agency, asset and mortgage-backed obligations	—	51	—	51
Equity securities:				
United States companies	57	—	—	57
International companies	65	—	—	65
Investment funds ⁽²⁾	—	305	—	305
Total pension plan assets	<u>\$ 230</u>	<u>\$ 588</u>	<u>\$ —</u>	<u>\$ 818</u>

(1) Refer to Note 10 for additional discussion regarding the three levels of the fair value hierarchy.

(2) Investment funds are comprised of mutual funds and collective trust funds. These funds consist of equity and debt securities of approximately 66% and 34%, respectively, for 2014 and 51% and 49%, respectively, for 2013. Additionally, these funds are invested in United States and international securities of approximately 81% and 19%, respectively, for 2014 and 81% and 19%, respectively, for 2013.

The following table presents the fair value of plan assets, by major category, for the Company's defined benefit other postretirement plans (in millions):

	Input Levels for Fair Value Measurement ⁽¹⁾			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2014</u>				
Cash equivalents	\$ 2	\$ 1	\$ —	\$ 3
Debt securities:				
United States government obligations	4	—	—	4
Corporate obligations	—	5	—	5
Municipal obligations	—	1	—	1
Equity securities:				
United States companies	2	—	—	2
International companies	2	—	—	2
Investment funds ⁽²⁾	62	37	—	99
Total other postretirement plan assets	\$ 72	\$ 44	\$ —	\$ 116

	Input Levels for Fair Value Measurement ⁽¹⁾			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2013</u>				
Cash equivalents	\$ 2	\$ 3	\$ —	\$ 5
Debt securities:				
United States government obligations	3	1	—	4
Corporate obligations	—	5	—	5
Equity securities:				
United States companies	2	—	—	2
International companies	2	—	—	2
Investment funds ⁽²⁾	59	33	—	92
Total other postretirement plan assets	\$ 68	\$ 42	\$ —	\$ 110

(1) Refer to Note 10 for additional discussion regarding the three levels of the fair value hierarchy.

(2) Investment funds are comprised of mutual funds and collective trust funds. These funds consist of equity and debt securities of approximately 59% and 41%, respectively, for 2014 and 61% and 39%, respectively, for 2013. Additionally, these funds are invested in United States and international securities of approximately 98% and 2%, respectively, for 2014 and 2013.

When available, a readily observable quoted market price or net asset value of an identical security in an active market is used to record the fair value. In the absence of a quoted market price or net asset value of an identical security, the fair value is determined using pricing models or net asset values based on observable market inputs and quoted market prices of securities with similar characteristics. When observable market data is not available, the fair value is determined using unobservable inputs, such as estimated future cash flows, purchase multiples paid in other comparable third-party transactions or other information.

(15) Asset Retirement Obligations

The Company estimates its ARO liabilities based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at a credit-adjusted, risk-free rate. Changes in estimates could occur for a number of reasons, including changes in laws and regulations, plan revisions, inflation and changes in the amount and timing of the expected work.

The Company does not recognize liabilities for AROs for which the fair value cannot be reasonably estimated. Due to the indeterminate removal date, the fair value of the associated liabilities on certain generation, transmission, distribution and other assets cannot currently be estimated, and no amounts are recognized on the Consolidated Financial Statements other than those included in the cost of removal regulatory liability established via approved depreciation rates in accordance with accepted regulatory practices. These accruals totaled \$528 million and \$492 million as of December 31, 2014 and 2013, respectively.

The following table presents the Company's ARO liabilities by asset type as of December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Evaporative ponds and dry ash landfills	\$ 27	\$ 55
Waste water remediation	53	36
Asbestos	8	10
Other	9	15
Total asset retirement obligations	<u>\$ 97</u>	<u>\$ 116</u>

The following table reconciles the beginning and ending balances of the Company's ARO liabilities for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 116	\$ 75
Change in estimated costs	(24)	37
Accretion	5	4
Ending balance	<u>\$ 97</u>	<u>\$ 116</u>

Reflected as:

Other current liabilities	\$ 17	\$ —
Other long-term liabilities	80	116
	<u>\$ 97</u>	<u>\$ 116</u>

In 2008, Nevada Power signed an administrative order of consent as owner and operator of Reid Gardner Generating Station Unit Nos. 1, 2 and 3 and as co-owner and operating agent of Unit No. 4. Based on the administrative order of consent, Nevada Power recorded estimated AROs and capital remediation costs. However, actual costs of work under the administrative order of consent may vary significantly once the scope of work is defined and additional site characterization has been completed. In connection with the termination of the co-ownership arrangement, effective October 22, 2013, between the Nevada Power and California Department of Water Resources ("CDWR") for the Reid Gardner Generating Station Unit No. 4, the Nevada Power and CDWR entered into a cost-sharing agreement that sets forth how the parties will jointly share in costs associated with all investigation, characterization and, if necessary, remedial activities as required under the administrative order of consent. The 2014 and 2013 change in estimated costs was primarily related to refinement of expected remediation costs at the Reid Gardner Generating Station.

Certain of the Company's decommissioning and reclamation obligations relate to jointly-owned facilities, and as such, the Nevada Utilities are committed to pay a proportionate share of the decommissioning or reclamation costs. In the event of a default by any of the other joint participants, the respective subsidiary may be obligated to absorb, directly or by paying additional sums to the entity, a proportionate share of the defaulting party's liability. The Company's estimated share of the decommissioning and reclamation obligations are primarily recorded as ARO liabilities in other long-term liabilities on the Consolidated Balance Sheets.

In December 2014, the EPA released its final rule regulating the management and disposal of coal combustion byproducts resulting from the operation of coal-fueled generating facilities, including requirements for the operation and closure of surface impoundment and ash landfill facilities. The final rule will be effective 180 days after it is published in the Federal Register. Under the final rule, surface impoundments and landfills utilized for coal combustion byproducts may need to be closed unless they can meet the more stringent regulatory requirements. The Company is currently evaluating the requirements and costs of the new rule and cannot determine the impact on its ARO liabilities at this time.

(16) 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 ("SB 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 May 2014, Nevada Power filed its Emissions Reduction Capacity Replacement Plan ("ERCR Plan") in compliance with SB 123 enacted by the 2013 Nevada Legislature. The filing proposed, 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 SB 123. The ERCR 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 272-MW natural gas co-generating facility in 2014; the acquisition of a 210-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 ERCR Plan, which are subject to the PUCN approval. The PUCN issued an order dated October 28, 2014 removing the 200-MW solar photovoltaic facility proposed by Nevada Power from the ERCR Plan but accepting the remaining requests. In November 2014, Nevada Power filed a petition for reconsideration, but in December 2014, the PUCN upheld the original order from October 2014 with respect to material matters. In December 2014, Nevada Power filed its acceptance of the modifications to the ERCR Plan.

Nevada Power - Reid Gardner Generation 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 Generation 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 Sierra Pacific's Valmy Generating Station 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 responses 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 ("kV") transmission line owned by the Company 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 the Company 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 the Company for breach of contract, inverse condemnation and trespass. The Company counterclaimed for express condemnation of a perpetual easement over the right-of-way corridor. The matter proceeded to trial in the Eighth 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 the Company was entitled to judgment in its favor on its counterclaim for condemnation of the right-of-way corridor. The Company has posted the required bond of \$12 million and has appealed to the Nevada Supreme Court. The Company cannot assess or predict the outcome of the case at this time.

Nevada Power - Park Highlands

Nevada Power has six other rights-of-way located on the same 2,675 acres of land located in North Las Vegas, Nevada, commonly referred to as the Park Highlands properties. NLI purportedly also terminated the other six rights-of-way. On January 2, 2015 KBS SOR Park Highlands, LLC ("KBS") filed a complaint in the Eighth District Court relating to one of the six rights-of-way, specifically the right-of-way that relates to a 230-kV line that traverses the property. In the complaint, KBS raised the same claims previously raised by NLI in the litigation relating to the 500-kV line. Nevada Power plans to vigorously defend the matter. The Company cannot assess or predict the outcome of the case at this time.

On January 9, 2015, Nevada Power filed an action in the Eighth District Court relating to the six rights-of-way on the Park Highlands properties. This action seeks a declaratory order quieting Nevada Power's title to the rights-of-way or in the alternative condemning an easement interest in the property. Nevada Power plans to vigorously prosecute this matter to perfect its property rights. The Company cannot assess or predict the outcome of the case at this time.

Nevada Power - Skye Canyon

In 2005, the Bureau of Land Management sold at auction a parcel of land commonly known as the Skye Canyon properties. The property was sold subject to preexisting rights-of-way held by Nevada Power for the placement of electric transmission and distribution facilities. On January 9, 2015, Nevada Power filed an action in the Eighth District Court relating to 14 rights-of-way located within the Skye Canyon properties. The action seeks a declaratory order from the court that the rights-of-way held by Nevada Power are still valid, seeks to establish the proper rent, if any, payable by Nevada Power and to identify the proper party to whom rent is due. In the alternative, Nevada Power is condemning an easement interest for the 14 rights-of-way. Nevada Power plans to vigorously prosecute this case. 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 CDWR, 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. CDWR 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. In August 2014, the court dismissed without prejudice the plaintiff's amended complaint which sought civil penalties. Nevada Power answered the complaint and has recently engaged in discussions with the plaintiffs to determine if a settlement can be reached that avoids the costs and burden of litigation. The Company cannot assess or predict the outcome of the case at this time.

Sierra Pacific - Newmont Nevada Energy Investment - 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-kV transmission line connecting Sierra Pacific and Nevada Power ("ON Line"), Newmont needed 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 costs are a component of the ON Line construction costs and are shared between Sierra Pacific and Nevada Power at 5% and 95%, respectively. The protection equipment has been installed at the TS Power Plant and Sierra Pacific's 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. The parties have finalized a settlement in this matter and final documents dismissing the claims have been filed with the court, in November 2014. The terms of the settlement did not have a material impact on the Company.

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.

Subrogation lawsuits and 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). The individual lawsuits mostly alleged similar causes of action as outlined in the subrogation claims. Sierra Pacific reached settlement of all of the subrogation lawsuits in July 2014, which did not have a material impact to Sierra Pacific.

In February 2015, all but one of the remaining individual plaintiffs entered into a proposed settlement agreement. This proposed settlement agreement will not have a material impact on the Company. The Company plans to vigorously defend the remaining lawsuit. The Company cannot assess or predict the outcome of the remaining lawsuit or if any other litigation may be brought on this matter.

Sierra Pacific - Touch America Holdings

In January 2015, Brent Williams as Trustee of Touch America Holdings ("Touch America") filed a complaint in the United States Bankruptcy Court for the District of Delaware against Sierra Pacific alleging Touch America owns certain underground communications conduit located at various places in the western United States that Sierra Pacific also claims to own. The conduit at issue is believed to be located between Reno, Nevada and Spanish Fork, Utah as part of a larger duct bank system. Sierra Pacific is preparing a response to the complaint which will be filed in March 2015 pursuant to applicable deadlines. Sierra Pacific plans to vigorously defend the matter. The Company cannot assess or predict the outcome of the case at this time.

Commitments

The Company has the following firm commitments that are not reflected on the Consolidated Balance Sheet. Minimum payments as of December 31, 2014 are as follows (in millions):

	2015	2016	2017	2018	2019	Thereafter	Total
Contract type:							
Fuel and capacity contract commitments	\$ 860	\$ 620	\$ 477	\$ 391	\$ 380	\$ 3,592	\$ 6,320
Fuel and capacity contract commitments (not commercially operable)	65	79	80	81	88	1,883	2,276
Construction commitments	42	—	—	—	—	—	42
Operating leases and easements	16	11	9	10	10	97	153
Maintenance, service, and other contracts	46	45	46	43	46	232	458
Total commitments	<u>\$ 1,029</u>	<u>\$ 755</u>	<u>\$ 612</u>	<u>\$ 525</u>	<u>\$ 524</u>	<u>\$ 5,804</u>	<u>\$ 9,249</u>

Fuel and Capacity Contract Commitments

Purchased Power

The Company has several contracts for long-term purchase of electric energy which have been approved by the PUCN. The expiration of these contracts range from 2015 to 2039. Purchased power includes contracts which meet the definition of a lease. The Company's rent expense for purchase power contracts which met the lease criteria for 2014 and 2013 were \$313 million and \$463 million, respectively, and are recorded as cost of fuel, energy and capacity on the Consolidated Statements of Operations.

Coal and Natural Gas

The Company has several long-term contracts for the purchase of coal that expire from 2015 to 2019 and a contract for the transportation of coal that extends through 2017. Additionally, gas transportation contracts expire from 2015 to 2031 and the gas supply contract expires in 2016.

Fuel and Capacity Contract Commitments - Not Commercially Operable

The Company has several contracts for long-term purchase of electric energy in which the facility remains under development. Amounts represent the estimated payments under renewable energy power purchase contracts, which have been approved by the PUCN and are contingent upon the developers obtaining commercial operation and their ability to deliver power.

Construction Commitments

The Company's construction commitments included in the table above relate to firm commitments to build a solar facility on the Nellis Air Force Base.

Operating Leases

The Company has non-cancelable operating leases primarily for office equipment, office space, certain operating facilities, vehicles, and land. These leases generally require the Company to pay for insurance, taxes and maintenance applicable to the leased property. Certain leases contain renewal options for varying periods and escalation clauses for adjusting rent to reflect changes in price indices. The Company also has non-cancelable easements for land. Rent expense on non-cancelable operating leases totaled \$18 million and \$16 million for the years ended December 31, 2014 and 2013, respectively.

Maintenance, Service and Other Contracts

The Company has long-term service agreements for the performance of maintenance on generation units. Obligation amounts are based on estimated usage. The estimated expiration of these service agreements range from 2023 to 2039.

(17) Stock Compensation Plans

Pursuant to the Merger Agreement on December 19, 2013, all stock compensation plans were terminated and settled. At the close of the BHE Merger, each share of outstanding common stock of NV Energy was converted into a right to receive cash in the amount of \$23.75 per share. All of the common stock shares were canceled and ceased to exist as of the merger date. NV Energy's change in control provisions accelerated the vesting and settlement of stock compensation awards to executives and employees. Immediately prior to the consummation of the BHE Merger outstanding restricted stock units, performance awards, and deferred stock units were fully vested and canceled in exchange for the right to receive \$23.75 per unit award. In addition, each outstanding option to purchase shares granted under NV Energy's stock plan was fully vested and canceled in exchange for a payment in cash equal to the excess, if any, of \$23.75 per share over the exercise price per share subject to cancellation. At the consummation of the BHE Merger all common stock plans were terminated and no further NV Energy options, restricted stock units, performance awards or deferred stock units may be issued. As a result, all discussion below related to stock compensation plans relates to activities prior to the BHE Merger.

NV Energy's executive LTIP for key management employees, which was approved by shareholders in May 2004 and amended and restated in 2011, provided for the issuance of up to 7,750,000 of NV Energy's common shares to key employees through December 19, 2013. The plan permitted the following types of grants, separately or in combination: nonqualified and qualified stock options, stock appreciation rights, restricted stock units, performance units, performance shares, and bonus stock.

Under the LTIP and employee stock purchase plan, NV Energy settled awards by either new issuances of shares, open market purchases, or issuance of treasury shares. Refer to Note 18 for further discussion on treasury stock.

Total stock-based compensation expense was as follows for the years ended December 31 (in millions):

	<u>2013</u>
Performance Units and Performance Shares	\$ 34
Restricted Stock Units	8
Total Stock Compensation Expense	<u>\$ 42</u>

As a result of the announcement and consummation of the BHE Merger, stock compensation costs increased significantly from prior years due to the increase in the per share stock price of NV Energy, Inc. common stock, the conversion of equity awards to liability awards upon completion of the merger, and the accelerated vesting of all outstanding awards on the date of the merger.

Non-Qualified Stock Options

Options outstanding at December 19, 2013 were cashed out for the difference between BHE's acquisition price of \$23.75 per share and the strike price of the grants.

There have been no grants of non-qualified stock options made to employees since 2007.

The following table summarizes the status of NV Energy's nonqualified stock option plan and changes for the years ended December 31 (dollars in millions, except per share data):

	<u>2013</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at beginning of year	356,437	\$ 17.90
Exercised	(73,547)	\$ 15.95
Settled for Cash upon Merger	(282,890)	\$ 18.41
Outstanding at end of year	<u>—</u>	<u>—</u>
Intrinsic value of cash settled options	\$ 2	—

Cash received from options exercised was \$1 million in 2013. The tax benefit realized for the tax deductions from option exercises was immaterial for all years. The fair value of options vested was zero for all years presented.

The following table summarizes performance units, performance shares and performance based restricted stock units activity for the years ended December 31 (dollars in millions, except per share data):

	2013	
	Shares	Weighted-Average Exercise Price
Nonvested performance awards at beginning of year	852,238	\$ 15.90
Shares granted	428,596	\$ 18.93
Shares vested prior to merger	(599,329)	\$ 15.98
Shares with accelerated vesting upon merger	(613,143)	\$ 18.51
Shares forfeited	(68,362)	\$ 18.64
Nonvested performance awards at end of year	<u>—</u>	\$ —
Weighted average grant date fair value of shares granted	\$ 8	
Fair value of shares issued prior to merger	\$ 18	
Fair value of shares settled for cash upon merger	\$ 49	

Compensation expense for performance awards granted prior to 2013 was recognized ratably over the three year vesting period. As a result of the BHE Merger, all vesting of performance awards were accelerated and 2,055,006 shares of performance awards were converted to cash and paid to the respective employees at \$23.75 per share.

Restricted Stock Units

Elected officers and key employees specifically designated by a committee of the board of directors were eligible to be awarded restricted stock units based on the guidelines in the plan. These grants vested over different periods as stated within the terms of each grant. The issuance of these shares was conditional upon the employee retaining employment with NV Energy throughout the entire vesting period. None of the units granted in 2013 are eligible for dividend equivalents. As a result of the BHE Merger, all vesting of restricted stock units were accelerated and 436,214 shares of restricted stock units were converted to cash and paid to the respective employees at \$23.75 per share.

The following table summarizes restricted stock units activity for the years ended December 31 (dollars in millions, except per share data):

	2013	
	Shares	Weighted-Average Exercise Price
Nonvested shares at beginning of year	275,701	\$ 15.43
Shares granted	70,464	\$ 21.52
Shares vested prior to merger	(142,267)	\$ 15.35
Shares with accelerated vesting upon merger	(159,426)	\$ 16.29
Shares forfeited	(44,472)	\$ 17.45
Nonvested shares at end of year	—	\$ —
Weighted average grant date fair value of shares granted	\$ 2	
Fair value of shares issued prior to merger	\$ 4	
Fair value of shares settled for cash upon merger	\$ 10	

Compensation expense for restricted stock units granted prior to 2013 was recognized ratably over the vesting period of each grant.

Employee Stock Purchase Plan

The employee stock purchase plan was available to all employees who met minimum service requirements. In 2010, shareholders approved an additional 1,000,000 shares for distribution under the plan, bringing the total authorized up to an aggregate of 1,900,162 shares of common stock. The employee stock purchase plan was eliminated upon completion of the merger with BHE.

NV Energy recognized compensation expense in 2013 related to the employee stock purchase plan. The expense for 2013 was estimated for the employees' purchase rights on the date of grant, using the Black-Scholes option-pricing model. The following assumptions were used with an option life of six months:

	Average Dividend Yield	Average Expected Volatility	Average Risk-Free Rate of Return	Weighted-Average Fair Value
2013	3.23%	8.44%	0.13%	\$ 4.00

As a result of the merger with BHE, shares previously purchased through this plan and still outstanding at December 19, 2013 were converted to cash and paid to the respective employees at \$23.75 per share.

(18) Common Stock and Other Paid-in Capital

Upon completion of the BHE Merger on December 19, 2013, all of the \$1 par value common stock shares were canceled and ceased to exist as of the merger date. Merger Sub was merged into NV Energy and NV Energy became an indirect wholly owned subsidiary of BHE which owns one share of \$0.01 par value common stock. The Company had 1,000 shares authorized and one share issued and outstanding of \$0.01 par value as of December 31, 2013.

(19) Supplemental Cash Flow Disclosures

The summary of supplemental cash flow disclosures as of and for the years ended December 31 is as follows (in millions):

	<u>2014</u>	<u>2013</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	\$ 268	\$ 294
Income taxes	<u>\$ —</u>	<u>\$ —</u>
Supplemental disclosure of non-cash investing and financing transactions:		
Accruals related to property, plant and equipment additions	\$ 61	\$ 63
Capital and financial lease obligations incurred	<u>\$ 8</u>	<u>\$ 441</u>

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 Annual Report. The Company's actual results in the future could differ significantly from the historical results.

On December 19, 2013, Berkshire Hathaway Energy Company ("BHE") completed the merger contemplated by the Agreement and Plan of Merger dated May 29, 2013, among BHE, Silver Merger Sub, Inc. ("Merger Sub"), BHE's wholly owned subsidiary, and NV Energy, whereby Merger Sub was merged into NV Energy and NV Energy became an indirect wholly owned subsidiary of BHE ("BHE Merger").

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

Net income for the year ended December 31, 2014 was \$296 million, an increase of \$134 million, or 83% compared to 2013. Net income increased primarily due to \$81 million in merger-related expense in 2013, which includes certain non-deductible expenses; \$35 million in lower costs associated with major outages, planned maintenance and other generating costs; \$35 million of impairment charges in 2013 for certain assets not in rates; \$22 million in regulatory disallowances in 2013; \$20 million due to a one-time bill credit to retail customers recorded in 2013 in connection with the BHE Merger; regulatory amortizations and lower compensation costs; partially offset by \$41 million of impairment charges in 2014 for certain assets not in rates and \$35 million in lower revenue in 2014 as a result of reduced customer rates from the 2013 general rate case effective January 1, 2014 at Sierra Pacific.

A comparison of key operating results and discussion of net income follows for the years ended December 31 (dollars in millions):

	2014	2013	Change	
Operating revenue:				
Electric	\$ 3,116	\$ 2,840	\$ 276	10%
Gas	125	121	4	3
Total operating revenue	3,241	2,961	280	9
Cost of fuel, energy and capacity	1,437	1,127	310	28
Natural gas purchased for resale	76	72	4	6
Gross margin	<u>\$ 1,728</u>	<u>\$ 1,762</u>	<u>\$ (34)</u>	<u>(2)</u>

Gross margin decreased \$34 million, or 2% for 2014 compared to 2013 primarily due to:

- \$35 million in lower revenue in 2014 as a result of reduced customer rates from the 2013 general rate case effective January 1, 2014 at Sierra Pacific;
- \$18 million in lower residential customer usage in 2014 at Nevada Power;
- \$16 million in lower energy efficiency program rate revenue, which is offset in operating and maintenance expense; and
- \$8 million lower net usage primarily due to a decrease in heating degree days at Sierra Pacific.

The decrease was partially offset by:

- \$20 million one-time bill credit to the Nevada Utilities' retail customers in connection with the BHE Merger in 2013;
- \$16 million due to customer growth; and
- \$11 million in transmission revenue primarily due to ON Line being placed in-service in December 2013.

Operating and maintenance decreased \$91 million, or 14% for 2014 compared to 2013 primarily due to \$35 million in lower costs associated with major outages, planned maintenance and other generating costs at the generating stations; \$35 million of impairment charges in 2013 for certain assets not in rates; \$22 million in regulatory disallowances in 2013; lower energy efficiency program costs, which are fully recovered in operating revenue; and lower compensation costs. The decrease was partially offset by \$41 million of impairment charges in 2014 for certain assets not in rates and regulatory amortizations.

Depreciation and amortization decreased \$21 million, or 5% for 2014 compared to 2013 primarily due to regulatory amortizations.

Property and other taxes increased \$4 million, or 6% for 2014 compared to 2013 primarily due to an increase in franchise taxes and an increase in property tax assessed value.

The Company incurred costs totaling \$81 million in 2013 related to the BHE Merger, consisting of amounts payable under the Company's change in control policy of \$22 million; accelerated vesting and stock compensation under the Company's long-term incentive plan of \$26 million; investment banker fees paid by the Company of \$21 million and legal and other expenses of \$12 million.

Other income (expense) is favorable \$39 million, or 13% for 2014 compared to 2013 primarily as a result of using cash on hand to repay existing debt at Nevada Power in July and December 2013, higher net interest earned on regulatory items, \$8 million gain on sale of property and stock, and decreased interest expense as a result of using proceeds from issuing lower cost debt in August 2013 to repay higher cost debt at Sierra Pacific, partially offset by lower allowance for debt and equity funds used during construction due to assets placed in-service, including ON Line being placed in service December 2013.

Income tax expense increased \$60 million, or 56% for 2014 compared to 2013 due to higher income before income tax expense. The effective tax rate was 36% in 2014 and 40% for 2013. The decrease in the effective tax rate is due to the effects of certain non-deductible merger related costs in 2013.