



NV Energy, Inc. and Subsidiaries

**Consolidated Financial Statements (Unaudited)
as of and for the
Years Ended December 31, 2017 and 2016**

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,	
		2017	2016
ASSETS			
Current assets:			
Cash and cash equivalents	\$	62	\$ 330
Accounts receivable, net		341	293
Inventories		108	118
Regulatory assets		60	45
Other current assets		61	51
Total current assets		<u>632</u>	<u>837</u>
Property, plant and equipment, net		9,769	9,819
Regulatory assets		1,242	1,410
Other assets		65	64
Total assets		<u><u>\$ 11,708</u></u>	<u><u>\$ 12,130</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities:			
Accounts payable	\$	203	\$ 234
Accrued interest		66	66
Accrued property, income and other taxes		36	35
Regulatory liabilities		110	106
Current portion of long-term debt and financial and capital lease obligations		844	18
Customer deposits		88	95
Other current liabilities		28	50
Total current liabilities		<u>1,375</u>	<u>604</u>
NV Energy long-term debt		314	313
Subsidiary long-term debt and financial and capital lease obligations		3,385	4,201
Regulatory liabilities		1,511	637
Deferred income taxes		1,098	2,035
Other long-term liabilities		394	405
Total liabilities		<u>8,077</u>	<u>8,195</u>
Commitments and contingencies (Note 14)			
Shareholder's equity:			
Common stock - 1,000 shares authorized, \$0.01 par value, 1 share issued and outstanding		—	—
Other paid-in capital		3,128	3,128
Retained earnings		509	811
Accumulated other comprehensive loss, net		(6)	(4)
Total shareholder's equity		<u>3,631</u>	<u>3,935</u>
Total liabilities and shareholder's equity		<u><u>\$ 11,708</u></u>	<u><u>\$ 12,130</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,	
	2017	2016
Operating revenue:		
Regulated electric	\$ 2,919	\$ 2,785
Regulated natural gas	99	110
Nonregulated	(2)	—
Total operating revenue	<u>3,016</u>	<u>2,895</u>
Operating costs and expenses:		
Cost of fuel, energy and capacity	1,170	1,033
Natural gas purchased for resale	42	55
Operations and maintenance	563	568
Depreciation and amortization	422	421
Property and other taxes	64	62
Total operating costs and expenses	<u>2,261</u>	<u>2,139</u>
Operating income	<u>755</u>	<u>756</u>
Other income (expense):		
Interest expense	(242)	(259)
Allowance for borrowed funds	3	8
Allowance for equity funds	4	1
Other, net	28	29
Total other income (expense)	<u>(207)</u>	<u>(221)</u>
Income before income tax expense	548	535
Income tax expense	204	194
Net income	<u>\$ 344</u>	<u>\$ 341</u>

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

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

	Common Stock		Other	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Shareholder's
			Capital		Comprehensive	Equity
					Loss, Net	
Balance, December 31, 2015	1	\$ —	\$ 3,128	\$ 970	\$ (4)	\$ 4,094
Net income	—	—	—	341	—	341
Dividends declared	—	—	—	(500)	—	(500)
Balance, December 31, 2016	1	—	3,128	811	(4)	3,935
Net income	—	—	—	344	—	344
Dividends declared	—	—	—	(646)	—	(646)
Other	—	—	—	—	(2)	(2)
Balance, December 31, 2017	1	\$ —	\$ 3,128	\$ 509	\$ (6)	\$ 3,631

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,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 344	\$ 341
Adjustments to reconcile net income to net cash flows from operating activities:		
(Gain) loss on nonrecurring items	(1)	7
Depreciation and amortization	422	421
Deferred income taxes and amortization of investment tax credits	203	194
Allowance for equity funds	(4)	(1)
Changes in regulatory assets and liabilities	66	113
Deferred energy	(36)	32
Amortization of deferred energy	(31)	(161)
Other, net	(6)	(2)
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	(46)	74
Inventories	3	1
Accrued property, income and other taxes	6	(8)
Accounts payable and other liabilities	(9)	(6)
Net cash flows from operating activities	<u>911</u>	<u>1,005</u>
Cash flows from investing activities:		
Capital expenditures	(456)	(529)
Acquisitions	(77)	—
Proceeds from sale of assets	4	—
Purchases of marketable securities	(11)	(7)
Proceeds from sale of marketable securities	3	—
Other, net	3	—
Net cash flows from investing activities	<u>(534)</u>	<u>(536)</u>
Cash flows from financing activities:		
Proceeds from issuance of subsidiary long-term debt	91	1,089
Repayments of subsidiary long-term debt and financial and capital lease obligations	(91)	(1,362)
Dividends paid	(646)	(500)
Other, net	1	—
Net cash flows from financing activities	<u>(645)</u>	<u>(773)</u>
Net change in cash and cash equivalents	(268)	(304)
Cash and cash equivalents at beginning of period	330	634
Cash and cash equivalents at end of period	<u>\$ 62</u>	<u>\$ 330</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").

(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 30, 2018. The Consolidated Statements of Comprehensive Income have been omitted as net income equals comprehensive income for the years ended December 31, 2017 and 2016. Certain amounts in the prior period Consolidated Financial Statements have been reclassified to conform to the current period presentation. Such reclassifications did not impact previously reported operating income, net income or retained earnings.

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).

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 assets and 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):

	2017	2016
Beginning balance	\$ 14	\$ 14
Charged to operating costs and expenses, net	17	18
Write-offs, net	(13)	(18)
Ending balance	<u>\$ 18</u>	<u>\$ 14</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.

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 derivative 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 a derivative contract not probable of inclusion in rates, changes in the fair value are recognized in earnings.

Inventories

Inventories consist mainly of materials and supplies totaling \$98 million and \$96 million as of December 31, 2017 and 2016, respectively, and fuel, which includes coal stock, stored natural gas and fuel oil, totaling \$10 million and \$22 million as of December 31, 2017 and 2016, 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 Public Utilities Commission of Nevada ("PUCN").

Property, Plant and Equipment, Net

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 a non-current regulatory liability on the Consolidated Balance Sheets. 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, depreciated using the composite method, they charge 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 with the exception of material gains or losses on regulated property, plant and equipment depreciated on a straight-line basis, which is then recorded to a regulatory asset or liability.

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 2017 and 2016 was 8.09%. Sierra Pacific's AFUDC rate used during 2017 and 2016 was 6.65% and 7.62%, respectively, for electric, 5.63% and 6.02%, respectively, for natural gas and 6.55% and 7.44%, respectively, for common facilities.

Asset Retirement Obligations

The Nevada Utilities recognize AROs when they have 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. The costs are not recovered in rates until the work has been completed.

Impairment of Long-Lived Assets

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 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, 2017, the impacts of regulation are considered when evaluating the carrying value of regulated assets.

Income Taxes

Berkshire Hathaway includes the Company in its 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. On December 22, 2017, the Tax Cuts and Jobs Act ("2017 Tax Reform") was signed into law which, among other items, reduces the federal corporate tax rate from 35% to 21%. Changes in deferred income tax assets and liabilities that are associated with income tax benefits and expense for the federal tax rate change from 35% to 21%, certain property-related basis differences and other various differences that the Nevada Utilities deem probable to be passed on to their customers are charged or credited directly to a regulatory asset or liability 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 Nevada Utilities' 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. Estimated interest and penalties, if any, related to uncertain tax positions are included as a component of income tax expense on the Consolidated Statements of Operations.

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, 2017 and 2016, unbilled revenue was \$173 million and \$143 million, respectively, 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.

The 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 allocate the natural gas sales between generation and natural gas retail based on usage. The energy sales and natural gas sales allocated to generation are recorded net in cost of fuel, energy and capacity. The natural gas sales allocated to natural gas retail are recorded as wholesale revenue.

Unamortized Debt Premiums, Discounts and Issuance Costs

Premiums, discounts and financing costs incurred for the issuance of long-term debt are amortized over the term of the related financing on a straight-line basis.

New Accounting Pronouncements

In March 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-05, which amends FASB Accounting Standards Codification ("ASC") Topic 740, "Income Taxes." This amendment adds various Securities and Exchange Commission ("SEC") paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118 to assist in the implementation process of the 2017 Tax Reform by allowing calculations to be classified as provisional and subject to remeasurement. There are three different classifications for the accounting: (1) completed, (2) not complete but reasonably estimable or (3) not complete and amounts are not reasonably estimable. This guidance is effective immediately for all companies. The Company has adopted this guidance.

In March 2017, the FASB issued ASU No. 2017-07, which amends FASB ASC Topic 715, "Compensation - Retirement Benefits." The amendments in this guidance require that an employer disaggregate the service cost component from the other components of net benefit cost and report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of operations separately from the service cost component and outside the subtotal of operating income. Additionally, the guidance only allows the service cost component to be eligible for capitalization when applicable. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. This guidance must be adopted retrospectively for the presentation of the service cost component and the other components of net benefit cost in the statement of operations and prospectively for the capitalization of the service cost component in the balance sheet. The Company adopted this guidance effective January 1, 2018 and the adoption will not have a material impact on its Consolidated Financial Statements and disclosures included within Notes to Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, which amends FASB ASC Subtopic 230-10, "Statement of Cash Flows - Overall." The amendments in this guidance require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted, and is required to be adopted retrospectively. The Company adopted this guidance effective January 1, 2018 and the adoption will not have a material impact on its Consolidated Financial Statements and disclosures included within Notes to Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, which amends FASB ASC Topic 230, "Statement of Cash Flows." The amendments in this guidance address the classification of eight specific cash flow issues within the statement of cash flows with the objective of reducing the existing diversity in practice. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted, and is required to be adopted retrospectively. The Company adopted this guidance effective January 1, 2018 and the adoption will not have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, which creates FASB ASC Topic 842, "Leases" and supersedes Topic 840 "Leases." This guidance increases transparency and comparability among entities by recording lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous guidance. In January 2018, the FASB issued ASU No. 2018-01 that provides for an optional transition practical expedient allowing companies to not have to evaluate existing land easements if they were not previously accounted for under ASC Topic 840, "Leases." This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted, and is required to be adopted using a modified retrospective approach. The Company plans to adopt this guidance effective January 1, 2019 and is currently evaluating the impact on its Consolidated Financial Statements and disclosures included within Notes to Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, which creates FASB 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. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year to interim and annual reporting periods beginning after December 15, 2017. During 2016 and 2017, the FASB issued several ASUs that clarify the implementation guidance for ASU No. 2014-09 but do not change the core principle of the guidance. 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 adopted this guidance effective January 1, 2018 under the modified retrospective method and the adoption will not have an impact on its Consolidated Financial Statements but will increase the disclosures included within Notes to Consolidated Financial Statements. The timing and amount of revenue recognized after adoption of the new guidance will not be different than before as a majority of revenue is recognized when the Company has the right to invoice as it corresponds directly with the value to the customer of the Company's performance to date. The Company's current plan is to quantitatively disaggregate revenue in the required financial statement footnote by customer class.

(3) Property, Plant and Equipment, Net

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

	Depreciable Life	2017	2016
Utility plant:			
Electric generation	25 - 60 years	\$ 4,851	\$ 5,408
Electric distribution	20 - 100 years	4,773	4,648
Electric transmission	45 - 100 years	2,646	2,617
Electric general and intangible plant	5 - 70 years	974	902
Natural gas distribution	35 - 70 years	390	381
Natural gas general and intangible plant	5 - 70 years	14	15
Common general	5 - 70 years	294	267
Utility plant		13,942	14,238
Accumulated depreciation and amortization		(4,384)	(4,647)
Utility plant, net		9,558	9,591
Other non-regulated, net of accumulated depreciation and amortization	45 - 70 years	6	7
Plant, net		9,564	9,598
Construction work-in-progress		205	221
Property, plant and equipment, net		\$ 9,769	\$ 9,819

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 expense, as authorized by the PUCN, stated as a percentage of the depreciable property balances as of December 31, 2017 and 2016 was 3.2%, while Sierra Pacific's depreciation and amortization expense as of December 31, 2017 and 2016 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. During 2017, Nevada Power performed a depreciation study, in which the depreciation rates will be implemented in January 2018. The study results in shorter estimated useful lives at the Navajo Generating Station and longer average service lives for various other utility plant groups. The net effect of these changes, based on the study, will increase depreciation and amortization expense by \$7 million annually based on depreciable plant balances at the time of the change.

In January 2017, Sierra Pacific revised its electric and gas depreciation rates based on the results of a new depreciation study performed in 2016, the most significant impact of which was shorter estimated useful lives at the Valmy Generating Station. The effect of this change increased depreciation and amortization expense by \$9 million annually based on depreciable plant balances at the time of the study. However, the PUCN ordered the change relating to the Valmy Generating Station of \$7 million annually be deferred for future recovery through a regulatory asset.

Acquisitions

In April 2017, Nevada Power purchased the remaining 25% interest in the Silverhawk natural gas-fueled generating facility for \$77 million. The PUCN approved the purchase of the facility in Nevada Power's triennial Integrated Resource Plan filing in December 2015. The purchase price was allocated to the assets acquired, consisting primarily of generation utility plant, and no significant liabilities were assumed.

(4) 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	2017	2016
Decommissioning costs	6 years	\$ 231	\$ 114
Employee benefit plans ⁽¹⁾	8 years	212	246
Merger costs from 1999 merger	28 years	207	216
Deferred operating costs	12 years	175	127
Abandoned projects	5 years	92	114
Asset retirement obligations	9 years	85	86
Legacy meters	12 years	68	76
Deferred income taxes ⁽²⁾	N/A	—	226
Other	Various	232	250
Total regulatory assets		<u>\$ 1,302</u>	<u>\$ 1,455</u>
Reflected as:			
Current assets		\$ 60	\$ 45
Other assets		1,242	1,410
Total regulatory assets		<u>\$ 1,302</u>	<u>\$ 1,455</u>

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

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

The Company had regulatory assets not earning a return on investment of \$553 million and \$878 million as of December 31, 2017 and 2016, respectively. The regulatory assets not earning a return on investment primarily consist of merger costs from 1999 merger, a portion of the employee benefit plans, asset retirement obligations, deferred operating costs, losses on reacquired debt and deferred energy costs. Regulatory assets not earning a return as of December 31, 2016 also included deferred income taxes.

Regulatory liabilities represent 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	2017	2016
Deferred income taxes ⁽¹⁾	31 years	\$ 934	\$ 16
Cost of removal ⁽²⁾	35 years	518	499
Impact fees	6 years	89	90
Deferred energy costs	2 years	8	64
Energy efficiency program	1 year	32	41
Other	Various	40	33
Total regulatory liabilities		<u>\$ 1,621</u>	<u>\$ 743</u>
Reflected as:			
Current liabilities		\$ 110	\$ 106
Other long-term liabilities		1,511	637
Total regulatory liabilities		<u>\$ 1,621</u>	<u>\$ 743</u>

(1) Amounts primarily represent income tax liabilities related to the federal tax rate change from 35% to 21% that are probable to be passed on to customers, offset by income tax benefits related to accelerated tax depreciation and certain property-related basis differences that were previously passed on to customers and will be included in regulated rates when the temporary differences reverse. See Note 10 for further discussion of 2017 Tax Reform impacts.

(2) 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 would be included in the table above as deferred 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 costs. These excess amounts are reflected in quarterly adjustments to rates and recorded as cost of fuel, energy and capacity in future time periods.

Regulatory Rate Review

In June 2017, Nevada Power filed an electric regulatory rate review with the PUCN. The filing supported an annual revenue increase of \$29 million, or 2%, but requested no incremental annual revenue relief. In December 2017, the PUCN issued an order which reduced Nevada Power's revenue requirement by \$26 million and requires Nevada Power to share 50% of revenues related to equity returns above 9.7%. As a result of the order, Nevada Power recorded expense of \$28 million primarily due to the reduction of a regulatory asset to return to customers revenue collected for costs not incurred. In January 2018, Nevada Power filed a petition for clarification of certain findings and directives in the order. The new rates were effective in February 2018.

In June 2016, Sierra Pacific filed an electric regulatory rate review with the PUCN. The filing requested no incremental annual revenue relief. In October 2016, Sierra Pacific filed with the PUCN a settlement agreement resolving most, but not all, issues in the proceeding and reduced Sierra Pacific's electric revenue requirement by \$3 million spread evenly to all rate classes. In December 2016, the PUCN approved the settlement agreement and established an additional six megawatts ("MW") of net metering capacity under the grandfathered rates, which are those net metering rates that were in effect prior to January 2016; the order establishes cost-based rates and a value-based excess energy credit for customers who choose to install private generation after the six MW limitation is reached. The new rates were effective January 1, 2017. In January 2017, Sierra Pacific filed a petition for reconsideration relating to the creation of the additional six MW of net metering at the grandfathered rates. Sierra Pacific believes the effects of the PUCN decision results in additional cost shifting to non-net metering customers and reduces the stipulated rate reduction for other customer classes. In June 2017, the PUCN denied the petition for reconsideration.

In June 2016, Sierra Pacific filed a gas regulatory rate review with the PUCN. The filing requested a slight decrease in its incremental annual revenue requirement. In October 2016, Sierra Pacific filed with the PUCN a settlement agreement resolving all issues in the proceeding and reduced Sierra Pacific's gas revenue requirement by \$2 million. In December 2016, the PUCN approved the settlement agreement. The new rates were effective January 1, 2017.

Energy Efficiency Program Rates ("EEPR") and Energy Efficiency Implementation Rates ("EEIR")

EEPR was established to allow the Company to recover the costs of implementing energy efficiency programs and EEIR was established to offset the negative impacts on revenue associated with the successful implementation of energy efficiency programs. These rates change once a year in the utility's annual DEAA application based on energy efficiency program budgets prepared by the Company and approved by the PUCN in integrated resource plan proceedings. To the extent the Company earned rate of return exceeds the rate of return used to set base general rates, the Company is required to refund to customers EEIR revenue previously collected for that year. In March 2017, the Company filed an application to reset the EEIR and EEPR and refund the EEIR revenue received in 2016, including carrying charges. In September 2017, the PUCN issued an order accepting a stipulation requiring the Company to refund the 2016 revenue and reset the rates as filed effective October 1, 2017. The EEIR liability for the Company is \$11 million and \$12 million, which is included in current regulatory liabilities on the Consolidated Balance Sheets as of December 31, 2017 and 2016, respectively.

Chapter 704B Applications

Chapter 704B of the Nevada Revised Statutes allows retail electric customers with an average annual load of one MW or more to file with the PUCN an application to purchase energy from alternative providers of a new electric resource and become distribution only service customers. On a case-by-case basis, the PUCN will assess the application and may deny or grant the application subject to conditions, including paying an impact fee, paying on-going charges and receiving approval for specific alternative energy providers and terms. The impact fee and on-going charges are assessed to alleviate the burden on other Nevada customers for the applicant's share of previously committed investments and long-term renewable contracts and are set at a level designed such that the remaining customers are not subjected to increased costs.

In May 2015, MGM Resorts International ("MGM") and Wynn Las Vegas, LLC ("Wynn"), filed applications with the PUCN to purchase energy from alternative providers of a new electric resource and become distribution only service customers of Nevada Power. In December 2015, the PUCN granted the applications subject to conditions, including paying an impact fee, on-going charges and receiving approval for specific alternative energy providers and terms. In December 2015, the applicants filed petitions for reconsideration. In January 2016, the PUCN granted reconsideration and updated some of the terms, including removing a limitation related to energy purchased indirectly from NV Energy. In September 2016, MGM and Wynn paid impact fees of \$82 million and \$15 million, respectively. In October 2016, MGM and Wynn became distribution only service customers and started procuring energy from another energy supplier. In April 2017, Wynn filed a motion with the PUCN seeking relief from the January 2016 order and requested the PUCN adopt an alternative impact fee and revise on-going charges associated with retirement of assets and high cost renewable contracts. This request is still pending. In May 2017, a stipulation reached between MGM, Regulatory Operations Staff and the Bureau of Consumer Protection was filed requiring Nevada Power to reduce the original \$82 million impact fee by \$16 million and apply the credit against MGM's remaining on-going charge obligation. In June 2017, the PUCN approved the stipulation as filed.

In September 2016, Switch, Ltd. ("Switch"), a customer of the Nevada Utilities, filed an application with the PUCN to purchase energy from alternative providers of a new electric resource and become a distribution only service customer of Nevada Power and Sierra Pacific. In December 2016, the PUCN approved a stipulation agreement that allows Switch to purchase energy from alternative providers subject to conditions, including paying an impact fee to Nevada Power. In May 2017, Switch paid impact fees of \$27 million and, in June 2017, Switch became a distribution only service customer and started procuring energy from another energy supplier.

In November 2016, Caesars Enterprise Service ("Caesars"), a customer of the Nevada Utilities, filed an application with the PUCN to purchase energy from alternative providers of a new electric resource and become a distribution only service customer of Nevada Power and Sierra Pacific. In March 2017, the PUCN approved the application allowing Caesars to purchase energy from alternative providers subject to conditions, including paying an impact fee. In March 2017, Caesars provided notice that it intends to pay the impact fee monthly for three and six years at Sierra Pacific and Nevada Power, respectively, and proceed with purchasing energy from alternative providers. In July 2017, Caesars made the required compliance filings and, in September 2017, the PUCN issued an order allowing Caesars to acquire electric energy and ancillary services from another energy supplier and become a distribution only service customer of the Nevada Utilities. In December 2017 Caesars provided notice that it intends to transition eligible meters in the Nevada Power service territory to unbundled electric service in February 2018 at the earliest. In January 2018, Caesars became a distribution only service customer and started procuring energy from another energy supplier for its eligible meters in the Sierra Pacific service territory.

In May 2017, Peppermill Resort Spa Casino ("Peppermill"), a customer of Sierra Pacific, filed an application with the PUCN to purchase energy from alternative providers of a new electric resource and become a distribution only service customer of Sierra Pacific. In August 2017, the PUCN approved a stipulation allowing Peppermill to purchase energy from alternative providers subject to conditions, including paying an impact fee. In September 2017, Peppermill provided notice that it intends to pay the impact fee and proceed with purchasing energy from alternative providers.

Emissions Reduction and Capacity Retirement Plan ("ERCR Plan")

In March 2017, Nevada Power retired Reid Gardner Unit 4, a 257-MW coal-fueled generating facility. The early retirement was approved by the PUCN in December 2016 as a part of Nevada Power's second amendment to the ERCR Plan. The remaining net book value of \$151 million was moved from property, plant and equipment, net to noncurrent regulatory assets on the Consolidated Balance Sheet in March 2017, in compliance with the ERCR Plan. Refer to Note 14 for additional information on the ERCR Plan.

(5) Credit Facilities

Nevada Power

Nevada Power has a \$400 million secured credit facility expiring in June 2020 with two one-year extension options subject to lender consent. The credit facility, which is for general corporate purposes and provide for the issuance of letters of credit, has a variable interest rate based on the Eurodollar rate 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, 2017 and 2016, 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 0.65 to 1.0 as of the last day of each quarter.

Sierra Pacific

The following table summarizes Sierra Pacific's availability under its credit facility as of December 31 (in millions):

	2017	2016
Credit facility	\$ 250	\$ 250
Less - Water Facilities Refunding Revenue Bond support	(80)	(80)
Net credit facility	<u>\$ 170</u>	<u>\$ 170</u>

Sierra Pacific has a \$250 million secured credit facility expiring in June 2020 with two one-year extension options subject to lender consent. The credit facility, which is for general corporate purposes and provides for the issuance of letters of credit, has a variable interest rate based on the Eurodollar rate 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, 2017 and 2016, 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 0.65 to 1.0 as of the last day of each quarter.

(6) 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>2017</u>	<u>2016</u>
6.25% Senior Notes, due 2020	<u>\$ 315</u>	<u>\$ 314</u>	<u>\$ 313</u>

(7) Subsidiary Long-Term Debt and Financial and Capital Lease Obligations

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

	Par Value	2017	2016
Nevada Power:			
General and refunding mortgage securities:			
6.500% Series O, due 2018	\$ 324	\$ 324	\$ 324
6.500% Series S, due 2018	499	499	498
7.125% Series V, due 2019	500	499	499
6.650% Series N, due 2036	367	357	357
6.750% Series R, due 2037	349	346	345
5.375% Series X, due 2040	250	247	247
5.450% Series Y, due 2041	250	236	236
Tax-exempt refunding revenue bond obligations:			
Fixed-rate series:			
1.800% Pollution Control Bonds Series 2017A, due 2032 ⁽¹⁾	40	40	—
1.600% Pollution Control Bonds Series 2017, due 2036 ⁽¹⁾	40	39	—
1.600% Pollution Control Bonds Series 2017B, due 2039 ⁽¹⁾	13	13	—
Variable-rate series - 1.890% to 1.928%			
Pollution Control Bonds Series 2006A, due 2032	—	—	38
Pollution Control Bonds Series 2006, due 2036	—	—	37
Capital and financial lease obligations - 2.750% to 11.600%, due through 2054	475	475	485
Total Nevada Power long-term debt and financial and capital leases	\$ 3,107	\$ 3,075	\$ 3,066
Sierra Pacific:			
General and refunding mortgage securities:			
3.375% Series T, due 2023	\$ 250	\$ 248	\$ 248
2.600% Series U, due 2026	400	396	395
6.750% Series P, due 2037	252	255	255
Tax-exempt refunding revenue bond obligations:			
Fixed-rate series:			
1.250% Pollution Control Series 2016A, due 2029 ⁽²⁾	20	20	20
1.500% Gas Facilities Series 2016A, due 2031 ⁽²⁾	59	58	58
3.000% Gas and Water Series 2016B, due 2036 ⁽³⁾	60	63	64
Variable-rate series (2017 - 1.690% to 1.840%, 2016 - 0.788% to 0.800%):			
Water Facilities Series 2016C, due 2036	30	30	29
Water Facilities Series 2016D, due 2036	25	25	25
Water Facilities Series 2016E, due 2036	25	25	25
Capital and financial lease obligations (2017 - 2.700% to 10.396%, 2016 - 2.700% to 10.130%), due through 2054	34	34	34
Total Sierra Pacific long-term debt and financial and capital leases	\$ 1,155	\$ 1,154	\$ 1,153
Total subsidiary long-term debt and financial and capital leases	\$ 4,262	\$ 4,229	\$ 4,219

(1) Subject to mandatory purchase by Nevada Power in May 2020 at which date the interest rate may be adjusted from time to time.

(2) Subject to mandatory purchase by Sierra Pacific in June 2019 at which date the interest rate may be adjusted from time to time.

(3) Subject to mandatory purchase by Sierra Pacific in June 2022 at which date the interest rate may be adjusted from time to time.

Reflected as:

Current portion of long-term debt and financial and capital lease obligations	\$	844	\$	18
Subsidiary long-term debt and financial and capital lease obligations		3,385		4,201
Total subsidiary long-term debt and financial and capital lease obligations	\$	4,229	\$	4,219

Annual Payment on Long-Term Debt and Financial and Capital Leases

The annual repayments of long-term debt and capital and financial leases for the years beginning January 1, 2018 and thereafter, 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	
2018	\$ —	\$ 823	\$ —	\$ —	\$ 75	\$ 4	\$ 902
2019	—	500	—	—	76	4	580
2020	—	—	—	—	76	4	80
2021	—	—	—	—	80	4	84
2022	—	—	—	—	75	3	78
Thereafter	315	1,309	1,121	—	760	47	3,552
Total	315	2,632	1,121	—	1,142	66	5,276
Unamortized premium, discount and debt issuance cost	(1)	(32)	(1)	—	—	—	(34)
Executory costs	—	—	—	—	(92)	—	(92)
Amounts representing interest	—	—	—	—	(575)	(32)	(607)
Total	\$ 314	\$ 2,600	\$ 1,120	\$ —	\$ 475	\$ 34	\$ 4,543

The issuance of General and Refunding Mortgage Securities by the Nevada Utilities are subject to PUCN approval and is limited by available property and other provisions of the mortgage indentures for each of Nevada Power and Sierra Pacific. As of December 31, 2017, approximately \$8.4 billion of Nevada Power's and \$3.9 billion of Sierra Pacific's (based on original cost) property was subject to the liens of the mortgages.

Financial and Capital 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 \$24 million and \$25 million were included in property, plant and equipment, net as of December 31, 2017 and 2016, 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 \$6 million and \$7 million were included in property, plant and equipment, net as of December 31, 2017 and 2016, 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 became commercially operable through 1993. The terms of the leases are for 30 years and expire between the years 2022-2023. Capital assets of \$34 million and \$38 million were included in property, plant and equipment, net as of December 31, 2017 and 2016, 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 \$6 million and \$4 million were included in property, plant and equipment, net as of December 31, 2017 and 2016, 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. The Nevada Utilities' share of the long-term transmission use agreement and ownership interest is split at 95% for Nevada Power and 5% for Sierra Pacific. The term is for 41 years with the agreement ending December 31, 2054. Payments began on January 31, 2014. ON Line assets of \$417 million and \$423 million were included in property, plant and equipment, net as of December 31, 2017 and 2016, respectively.
- In 2015, Sierra Pacific entered into a 20-year capital lease for the Fort Churchill Solar Array. Capital assets of \$9 million and \$10 million were included in property, plant and equipment, net as of December 31, 2017 and 2016, respectively.

(8) 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 Company has established a risk management process that is designed to identify, assess, manage, mitigate, monitor and report 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 and 9 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, 2017</u>			
Commodity derivative liabilities ⁽¹⁾	\$ (2)	\$ (1)	\$ (3)
<u>As of December 31, 2016</u>			
Commodity derivative liabilities ⁽¹⁾	\$ (7)	\$ (7)	\$ (14)

- (1) The Company's commodity derivatives not designated as hedging contracts are included in regulated rates and as of December 31, 2017 and 2016, a regulatory asset of \$3 million and \$14 million, respectively, was recorded related to the derivative liability of \$3 million and \$14 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	2017	2016
Electricity sales	Megawatt hours	—	(2)
Natural gas purchases	Decatherms	174	160

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, 2017, credit ratings from the three recognized credit rating agencies were investment grade.

The aggregate fair value of the Company's derivative contracts in liability positions with specific credit-risk-related contingent features was \$1 million and \$2 million as of December 31, 2017 and 2016, respectively, 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 Company's collateral requirements could fluctuate considerably due to market price volatility, changes in credit ratings, changes in legislation or regulation or other factors.

(9) 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, 2017</u>				
Assets:				
Money market mutual funds ⁽¹⁾	\$ 3	\$ —	\$ —	\$ 3
Investment funds	24	—	—	24
	<u>\$ 27</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 27</u>
Liabilities - commodity derivatives				
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (3)</u>	<u>\$ (3)</u>
<u>As of December 31, 2016</u>				
Assets:				
Money market mutual funds ⁽¹⁾	\$ 258	\$ —	\$ —	\$ 258
Investment funds	22	—	—	22
	<u>\$ 280</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 280</u>
Liabilities - commodity derivatives				
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (14)</u>	<u>\$ (14)</u>

(1) Amounts are included in cash and cash equivalents 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 internally developed models, with internal and external fundamental data inputs. Market price quotations for certain electricity and natural gas trading hubs are not as readily obtainable due to markets that are not active. Given that limited market data exists for these contracts, 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. 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, 2017, 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 8 for further discussion regarding the Company's risk management and hedging activities.

The Company's investments in money market mutual funds and equity securities are accounted for as available-for-sale 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):

	2017	2016
Beginning balance	\$ (14)	\$ (22)
Changes in fair value recognized in regulatory assets	(3)	(4)
Settlements	14	12
Ending balance	<u>\$ (3)</u>	<u>\$ (14)</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):

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 4,034	\$ 4,656	\$ 4,013	\$ 4,587

(10) Income Taxes

Tax Cuts and Jobs Act

The 2017 Tax Reform impacts many areas of income tax law. The most material items include the reduction of the federal corporate tax rate from 35% to 21% effective January 1, 2018, limitations on bonus depreciation for utility property and the elimination of the deduction for production activities. GAAP requires the effect on deferred tax assets and liabilities of a change in tax rates be recognized in the period the tax rate change was enacted. As a result of the 2017 Tax Reform, the Company reduced deferred income tax liabilities \$1.1 billion. As it is probable the change in deferred taxes will be passed back to customers through regulatory mechanisms, the Company increased net regulatory liabilities by \$1.1 billion.

The Company has recorded the impacts of the 2017 Tax Reform in accordance with ASU 2018-05 and believes all the impacts to be complete with the exception of the interpretation of the bonus depreciation rules. The Company has determined the amounts recorded and the interpretation relating to this item to be provisional and subject to remeasurement during the measurement period upon obtaining the necessary additional information to complete the accounting. The Company believes its interpretations for bonus depreciation to be reasonable, however, as the guidance is clarified estimates may change. The accounting is estimated to be completed by December 2018.

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

	2017	2016
Deferred – Federal	206	196
Investment tax credits	(2)	(2)
Total income tax expense	\$ 204	\$ 194

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:

	2017	2016
Federal statutory income tax rate	35%	35%
Effects of ratemaking	1	1
Effect of tax rate change	1	—
Effective income tax rate	37%	36%

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

	2017	2016
Deferred income tax assets:		
Capital and financial leases	\$ 107	\$ 182
Regulatory liabilities	269	99
Employee benefits	30	53
Customer advances	21	32
Federal net operating loss and credit carryforwards	8	86
Other	11	23
Total deferred income tax assets	446	475
Valuation allowance	—	(5)
Total deferred income tax assets, net	446	470
Deferred income tax liabilities:		
Property related items	(1,145)	(1,854)
Regulatory assets	(283)	(450)
Capital and financial leases	(104)	(176)
Other	(12)	(25)
Total deferred income tax liabilities	(1,544)	(2,505)
Net deferred income tax liability	<u>\$ (1,098)</u>	<u>\$ (2,035)</u>

The following table provides the Company's federal net operating loss and tax credit carryforwards and expiration dates as of December 31, 2017 (in millions):

Net operating loss carryforwards	\$ 6
Deferred income taxes on federal net operating loss carryforwards	\$ 1
Expiration dates	2033
Other tax credits	\$ 7
Expiration dates	2018-2035

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.

(11) Related Party Transactions

The Company has an intercompany administrative services agreement with BHE and its subsidiaries. Amounts charged to the Company under this agreement totaled \$7 million and \$6 million for the years ended December 31, 2017 and 2016, respectively.

Kern River Gas Transmission Company, an indirect subsidiary of BHE, provided natural gas transportation and other services to Nevada Power of \$66 million and \$68 million for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Company's Consolidated Balance Sheets included amounts due to Kern River Gas Transmission Company of \$5 million.

The Company provided electricity and other services to PacifiCorp, an indirect subsidiary of BHE, of \$3 million and \$2 million for the years ended December 31, 2017 and 2016, respectively. There were no receivables associated with these services as of December 31, 2017 and 2016.

(12) Employee Benefit Plans

Defined Benefit Plans

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

In 2017, NV Energy amended the cash balance plan by providing a one-time opportunity for active participants to choose where to direct future NV Energy retirement contributions. Effective January 1, 2018, active participants were given a choice if NV Energy future fixed contribution should continue to be deposited into their cash balance account or instead be deposited into their NV Energy 401(k) Plan account. As a result of certain participants moving to the NV Energy 401(k) Plan, NV Energy recognized a curtailment gain of \$1 million.

In 2016, NV Energy amended the cash balance pension plan for the interest crediting rate in response to final hybrid plan regulations issued by the Internal Revenue Service. Effective January 1, 2017, non-represented and Local 396 employees will have an interest crediting rate that is equal to the 30-year Treasury rate as of November of the prior year and have a minimum interest floor of 5%. Local 1245 employees will have an interest crediting rate that is equal to the 30-year Treasury rate as of November of the prior year and have a minimum interest floor of 3.78%.

Net Periodic Benefit Cost

For purposes of calculating the expected return on plan assets, a market-related value is used. The market-related value of plan assets is calculated by spreading the difference between expected and actual investment returns over a five-year period beginning after the first year in which they occur.

Net periodic benefit cost for the plans included the following components for the years ended December 31 (in millions):

	Pension		Other Postretirement	
	2017	2016	2017	2016
Service cost	\$ 15	\$ 15	\$ 2	\$ 2
Interest cost	36	37	6	6
Expected return on plan assets	(44)	(41)	(6)	(7)
Net amortization	14	13	(4)	(3)
Curtailment gain	(1)	—	—	—
Net periodic benefit cost (credit)	<u>\$ 20</u>	<u>\$ 24</u>	<u>\$ (2)</u>	<u>\$ (2)</u>

The average percentage of NV Energy net periodic benefit costs capitalized during 2017 and 2016 was 37.2% and 37.4%, 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	
	2017	2016	2017	2016
Plan assets at fair value, beginning of year	\$ 842	\$ 768	\$ 111	\$ 108
Employer contributions	3	66	4	1
Participant contributions	—	—	2	2
Actual return on plan assets	110	54	19	9
Settlements	(15)	(10)	—	—
Benefits paid	(35)	(36)	(10)	(9)
Plan assets at fair value, end of year	<u>\$ 905</u>	<u>\$ 842</u>	<u>\$ 126</u>	<u>\$ 111</u>

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

	Pension		Other Postretirement	
	2017	2016	2017	2016
Benefit obligation, beginning of year	\$ 903	\$ 859	\$ 142	\$ 143
Service cost	15	15	2	2
Interest cost	36	37	6	6
Participant contributions	—	—	2	2
Actuarial loss (gain)	52	36	1	(2)
Benefits paid	(35)	(36)	(10)	(9)
Amendment	—	2	—	—
Settlements	(15)	(10)	—	—
Benefit obligation, end of year	<u>\$ 956</u>	<u>\$ 903</u>	<u>\$ 143</u>	<u>\$ 142</u>
Accumulated benefit obligation, end of year	<u>\$ 947</u>	<u>\$ 890</u>		

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	
	2017	2016	2017	2016
Plan assets at fair value, end of year	\$ 905	\$ 842	\$ 126	\$ 111
Benefit obligation, end of year	956	903	143	142
Funded status	<u>\$ (51)</u>	<u>\$ (61)</u>	<u>\$ (17)</u>	<u>\$ (31)</u>

Amounts recognized on the Consolidated Balance Sheets:

Other current liabilities	\$ (2)	\$ (2)	\$ —	\$ —
Other long-term liabilities	(49)	(59)	(17)	(31)
Amounts recognized	<u>\$ (51)</u>	<u>\$ (61)</u>	<u>\$ (17)</u>	<u>\$ (31)</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 \$30 million and \$21 million as of December 31, 2017 and 2016, 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.

Unrecognized Amounts

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	
	2017	2016	2017	2016
Net loss	\$ 225	\$ 256	\$ 2	\$ 13
Prior service credit	(4)	(9)	(5)	(9)
Total	<u>\$ 221</u>	<u>\$ 247</u>	<u>\$ (3)</u>	<u>\$ 4</u>

A reconciliation of the amounts not yet recognized as components of net periodic benefit cost for the years ended December 31, 2017 and 2016 is as follows (in millions):

	Regulatory Asset	Accumulated Other Comprehensive Loss	Total
<u>Pension</u>			
Balance, December 31, 2015	\$ 229	\$ 6	\$ 235
Net loss arising during the year	24	—	24
Net prior service credit arising during the year	1	—	1
Net amortization	(13)	—	(13)
Total	12	—	12
Balance, December 31, 2016	241	6	247
Net loss arising during the year	(14)	1	(13)
Net amortization	(14)	—	(14)
Curtailment gain	1	—	1
Total	(27)	1	(26)
Balance, December 31, 2017	<u>\$ 214</u>	<u>\$ 7</u>	<u>\$ 221</u>

	Regulatory Asset (Liability)
<u>Other Postretirement</u>	
Balance, December 31, 2015	\$ 6
Net loss arising during the year	(5)
Net amortization	3
Total	(2)
Balance, December 31, 2016	4
Net loss arising during the year	(11)
Net amortization	4
Total	(7)
Balance, December 31, 2017	<u>\$ (3)</u>

The net loss and prior service credit that will be amortized in 2018 into net periodic benefit cost are estimated to be as follows (in millions):

	Net Loss	Prior Service Credit	Total
Pension	\$ 16	\$ (2)	\$ 14
Other postretirement	—	(3)	(3)
Total	<u>\$ 16</u>	<u>\$ (5)</u>	<u>\$ 11</u>

Plan Assumptions

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

	Pension		Other Postretirement	
	2017	2016	2017	2016
Benefit obligations as of December 31:				
Discount rate	3.60%	4.05%	3.60%	4.10%
Rate of compensation increase	2.75%	2.75%	N/A	2.75%
Net periodic benefit cost for the years ended December 31:				
Discount rate	4.05%	4.40%	4.10%	4.40%
Expected return on plan assets	5.40%	5.50%	5.40-5.80%	5.50-6.30%
Rate of compensation increase	2.75%	2.75%	N/A	2.75%

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

	2017	2016
Assumed healthcare cost trend rates as of December 31:		
Healthcare cost trend rate assumed for next year	7.10%	7.40%
Rate that the cost trend rate gradually declines to	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2025	2025

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, 2017	\$ 1	\$ (1)
Total service and interest cost for the year ended December 31, 2017	—	—

Contributions and Benefit Payments

Employer contributions to the pension and other postretirement benefit plans are expected to be \$27 million and \$3 million, respectively, during 2018. In 2017, the Company contributed \$3 million to the pension plan and \$4 million to the other postretirement benefit plan. 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 plan 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 2018 through 2022 and for the five years thereafter are summarized below (in millions):

	Projected Benefit Payments	
	Pension	Other Postretirement
2018	\$ 58	\$ 10
2019	56	10
2020	61	10
2021	64	10
2022	62	10
2023-2027	330	45

Plan Assets

Investment Policy and Asset Allocations

The Company'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. Maturities for debt securities are managed to targets consistent with prudent risk tolerances. The plans retain outside investment advisors to manage plan investments within the parameters outlined by each plan's Pension and Employee Benefits Plans Administrative Committee. The investment portfolio is managed in line with the investment policy with sufficient liquidity to meet near-term benefit payments.

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, 2017:

	Pension	Other Postretirement
	%	%
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 Company adopted ASU No. 2015-07, "Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)" effective January 1, 2016 under a retrospective method.

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

	Input Levels for Fair Value Measurement ⁽¹⁾			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2017</u>				
Cash equivalents	\$ 10	\$ 16	\$ —	\$ 26
Debt securities:				
United States government obligations	152	—	—	152
Corporate obligations	—	231	—	231
Agency, asset and mortgage-backed obligations	—	40	—	40
Equity securities:				
United States companies	69	—	—	69
International companies	70	—	—	70
Investment funds ⁽²⁾	9	20	—	29
Total assets in the fair value hierarchy	<u>\$ 310</u>	<u>\$ 307</u>	<u>\$ —</u>	617
Investment funds ⁽²⁾ measured at net asset value				288
Total assets measured at fair value				<u>\$ 905</u>

	Input Levels for Fair Value Measurement ⁽¹⁾			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2016</u>				
Cash equivalents	\$ 4	\$ 27	\$ —	\$ 31
Debt securities:				
United States government obligations	127	—	—	127
International government obligations	—	2	—	2
Corporate obligations	—	206	—	206
Municipal obligations	—	8	—	8
Agency, asset and mortgage-backed obligations	—	53	—	53
Equity securities:				
United States companies	64	—	—	64
International companies	63	—	—	63
Total assets in the fair value hierarchy	<u>\$ 258</u>	<u>\$ 296</u>	<u>\$ —</u>	<u>554</u>
Investment ⁽²⁾ funds measured at net asset value				288
Total assets measured at fair value				<u>\$ 842</u>

(1) Refer to Note 9 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 57% and 43%, respectively, for 2017 and 58% and 42%, respectively, for 2016. Additionally, these funds are invested in United States and international securities of approximately 77% and 23%, respectively, for 2017 and 2016.

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

	Input Levels for Fair Value Measurement ⁽¹⁾			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2017</u>				
Cash equivalents	\$ 1	\$ —	\$ —	\$ 1
Debt securities:				
United States government obligations	4	—	—	4
Corporate obligations	—	6	—	6
Agency, asset and mortgage-backed obligations	—	1	—	1
Equity securities:				
United States companies	2	—	—	2
International companies	2	—	—	2
Investment funds ⁽²⁾	75	1	—	76
Total assets in the fair value hierarchy	<u>\$ 84</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>92</u>
Investment funds ⁽²⁾ measured at net asset value				34
Total assets measured at fair value				\$ 126

	Input Levels for Fair Value Measurement ⁽¹⁾			
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2016</u>				
Cash equivalents	\$ 4	\$ —	\$ —	\$ 4
Debt securities:				
United States government obligations	3	—	—	3
Corporate obligations	—	5	—	5
Agency, asset and mortgage-backed obligations	—	1	—	1
Equity securities:				
United States companies	2	—	—	2
International companies	1	—	—	1
Investment funds ⁽²⁾	64	—	—	64
Total assets in the fair value hierarchy	<u>\$ 74</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>80</u>
Investment funds ⁽²⁾ measured at net asset value				31
Total assets measured at fair value				<u>\$ 111</u>

(1) Refer to Note 9 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 63% and 37%, respectively, for 2017 and 61% and 39%, respectively, for 2016. Additionally, these funds are invested in United States and international securities of approximately 98% and 2%, respectively, for 2017 and 2016.

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.

Defined Contribution Plans

The Company's 401(k) plan covers substantially all employees. The Company's matching contributions are based on each participant's level of contribution, and certain participants receive contributions based on eligible pre-tax annual compensation. Contributions cannot exceed the maximum allowable for tax purposes. The Company's contributions to the 401(k) plan were \$15 million and \$14 million for the years ended December 31, 2017 and 2016, respectively.

(13) 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 \$518 million and \$499 million as of December 31, 2017 and 2016, respectively.

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

	2017	2016
Waste water remediation	\$ 39	\$ 38
Evaporative ponds and dry ash landfills	13	25
Asbestos	8	8
Solar	3	2
Other	27	20
Total asset retirement obligations	<u>\$ 90</u>	<u>\$ 93</u>

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

	2017	2016
Beginning balance	\$ 93	\$ 95
Change in estimated costs	6	4
Retirements	(13)	(10)
Accretion	4	4
Ending balance	<u>\$ 90</u>	<u>\$ 93</u>

Reflected as:

Other current liabilities	\$ 4	\$ 20
Other long-term liabilities	86	73
	<u>\$ 90</u>	<u>\$ 93</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 Nevada Power and California Department of Water Resources ("CDWR") for the Reid Gardner Generating Station Unit No. 4, 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.

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. Management has 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. 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.

(14) 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.

Senate Bill 123

In June 2013, the Nevada State Legislature passed Senate Bill No. 123 ("SB 123"), which included the retirement of coal plants and replacing the capacity with renewable facilities and other generating facilities. In May 2014, Nevada Power filed its ERCR Plan in compliance with SB 123. In July 2015, Nevada Power filed an amendment to its ERCR Plan with the PUCN which was approved in September 2015. In June 2015, the Nevada State Legislature passed Assembly Bill No. 498, which modified the capacity replacement components of SB 123.

Consistent with the ERCR Plan, Nevada Power acquired a 272-MW natural gas co-generating facility in 2014, acquired a 210-MW natural gas peaking facility in 2014, constructed a 15-MW solar photovoltaic facility in 2015, contracted two renewable power purchase agreements with 100-MW solar photovoltaic generating facilities in 2015, contracted a renewable power purchase agreement with 100-MW solar photovoltaic generating facility in 2016 and acquired the remaining 130 MW, 25%, of the Silverhawk natural gas-fueled generating facility in April 2017, of which 54 MW were approved as part of the ERCR Plan. Nevada Power has the option to acquire 35 MW of nameplate renewable energy capacity in the future under the ERCR Plan, subject to PUCN approval. Nevada Power retired Reid Gardner Units 1, 2, and 3, 300 MW of coal-fueled generation, in 2014 and Reid Gardner Unit 4, 257 MW of coal-fueled generation, in March 2017. These transactions are related to Nevada Power's compliance with SB 123, resulting in the retirement of 812 MW of coal-fueled generation by 2019.

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.

Commitments

The Company has the following firm commitments that are not reflected on the Consolidated Balance Sheet. Minimum payments as of December 31, 2017 are as follows (in millions):

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023 and Thereafter</u>	<u>Total</u>
Contract type:							
Fuel, capacity and transmission contract commitments	\$ 791	\$ 605	\$ 491	\$ 451	\$ 450	\$ 5,720	\$ 8,508
Fuel and capacity contract commitments (not commercially operable)	—	22	39	46	47	1,011	1,165
Operating leases and easements	11	11	12	11	9	108	162
Maintenance, service, and other contracts	52	50	49	46	42	52	291
Total commitments	<u>\$ 854</u>	<u>\$ 688</u>	<u>\$ 591</u>	<u>\$ 554</u>	<u>\$ 548</u>	<u>\$ 6,891</u>	<u>\$ 10,126</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 2018 to 2067. Purchased power includes contracts which meet the definition of a lease. The Company's operations and maintenance expense for purchase power contracts which met the lease criteria for 2017 and 2016 were \$384 million and \$371 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 a long-term contract for the transport of coal that expires in 2018 and a contract for the transportation of coal that extends through 2018. Additionally, the Company has gas transportation contracts expire from 2019 to 2046 and gas supply contracts expire from 2018 to 2019.

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.

Operating Leases and Easements

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. Operations and maintenance expense on non-cancelable operating leases and easements totaled \$13 million and \$19 million for the years ended December 31, 2017 and 2016, 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 2019 to 2039.

(15) 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>2017</u>	<u>2016</u>
Supplemental disclosure of cash flow information -		
Interest paid, net of amounts capitalized	<u>\$ 226</u>	<u>\$ 240</u>
Supplemental disclosure of non-cash investing and financing transactions:		
Accruals related to property, plant and equipment additions	<u>\$ 28</u>	<u>\$ 34</u>
Capital and financial lease obligations incurred	<u>\$ 1</u>	<u>\$ (1)</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.

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, 2017 was \$344 million, an increase of \$3 million, or 1%, including a charge of \$6 million from the Tax Cuts and Jobs Act enacted on December 22, 2017 ("2017 Tax Reform"). Excluding the impact of 2017 Tax Reform, adjusted net income was \$350 million, an increase of \$9 million compared to 2016. The increase in net income, excluding the impacts of energy efficiency programs having no impact on net income, was primarily due to higher electric gross margins of \$20 million and lower interest expense of \$17 million from lower deferred charges and lower rates on outstanding debt balances, partially offset by \$28 million of charges related to the Nevada Power regulatory rate order. Electric gross margins increased due to higher retail customer volumes, partially offset by a decrease in wholesale revenues. Retail customer volumes increased 1.5% due to customer usage patterns, higher customer demand from the impacts of weather and an increase in the average number of customers.

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

A comparison of key operating results related to gross margin for the years ended December 31 is as follows (dollars in millions):

	2017	2016	Change	
Operating revenue:				
Regulated electric	\$ 2,919	\$ 2,785	\$ 134	5%
Regulated natural gas	99	110	(11)	(10)
Nonregulated	(2)	—	(2)	*
Total operating revenue	3,016	2,895	121	4
Cost of fuel, energy and capacity	1,170	1,033	137	13
Natural gas purchased for resale	42	55	(13)	(24)
Gross margin	\$ 1,804	\$ 1,807	\$ (3)	—

* Not meaningful

Gross margin decreased \$3 million for 2017 compared to 2016 due to:

- \$32 million in lower commercial and industrial retail revenue from customers purchasing energy from alternative providers and becoming distribution only service customers;
- \$22 million in lower energy efficiency program rate revenue, which is offset in operations and maintenance and
- \$ 6 million in decreased wholesale revenue due to lower volumes.

The decrease in gross margin was offset by:

- \$21 million in higher other retail revenue primarily from impact fees and revenue relating to customers becoming distribution only service customers;
- \$21 million in higher customer usage patterns and the impacts of weather;
- \$9 million in higher transmission revenue primarily due to customers becoming distribution only service customers and
- \$7 million due to customer growth.

Operations and maintenance decreased \$5 million, or 1% for 2017 compared to 2016 due to lower energy efficiency program expense (offset in operating revenue) of \$22 million, lower planned maintenance and disallowances resulting from the settlement of Sierra Pacific's regulatory rate review in 2016 of \$5 million, partially offset by higher expenses related to Nevada Power's regulatory rate review in 2017 of \$25 million.

Depreciation and amortization increased \$1 million for 2017 compared to 2016 primarily due to higher plant placed in-service and the expiration of various regulatory amortizations.

Property and other taxes increased \$2 million, or 3% for 2017 compared to 2016 due to a reduction in property tax abatements.

Other income (expense) is favorable \$14 million, or 6% for 2017 compared to 2016 due to primarily due to a decrease in interest expense from lower rates on outstanding debt balances and lower interest expense on deferred charges, partially offset by lower allowance for funds used during construction and expenses related to the Nevada Power regulatory rate review in 2017.

Income tax expense increased \$10 million, or 5% for 2017 compared to 2016. The effective tax rate was 37% in 2017 and 36% in 2016. The increase in the effective tax rate is primarily due to the effects of 2017 Tax Reform and the qualified production activities deduction in 2016.