NV Energy, Inc. and Subsidiaries

Consolidated Financial Statements (Unaudited)
as of and for the
Quarterly Period Ended March 31, 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	
	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 483	$ 634
Accounts receivable, net	274	363
Inventories	119	119
Other current assets	70	59
Total current assets	946	1,175
Property, plant and equipment, net	9,766	9,762
Regulatory assets	1,479	1,487
Other assets	64	54
Total assets	$ 12,255	$ 12,478
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	$ 219	$ 270
Accrued interest	61	71
Accrued property, income and other taxes	42	43
Regulatory liabilities	271	251
Current portion of long-term debt and financial and capital lease obligations	466	678
Customer deposits	75	75
Other current liabilities	52	39
Total current liabilities	1,186	1,427
NV Energy long-term debt	313	313
Subsidiary long-term debt and financial and capital lease obligations	3,807	3,809
Regulatory liabilities	535	534
Deferred income taxes	1,862	1,852
Other long-term liabilities	442	449
Total liabilities	8,145	8,384
Commitments and contingencies (Note 9)		
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	986	970
Accumulated other comprehensive loss, net	(4)	(4)
Total shareholder's equity	4,110	4,094
Total liabilities and shareholder's equity	$ 12,255	$ 12,478

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)

	Three-Month Periods Ended March 31,	
	2016	**2015**
Operating revenue:		
Regulated electric	$ 569	$ 655
Regulated natural gas	47	50
Nonregulated	—	1
Total operating revenue	616	706
Operating costs and expenses:		
Cost of fuel, energy and capacity	238	322
Natural gas purchased for resale	30	35
Operating and maintenance	142	115
Depreciation and amortization	104	101
Property and other taxes	17	16
Total operating costs and expenses	531	589
Operating income	85	117
Other income (expense):		
Interest expense	(69)	(66)
Allowance for borrowed funds	1	1
Allowance for equity funds	2	1
Other, net	6	9
Total other income (expense)	(60)	(55)
Income before income tax expense	25	62
Income tax expense	9	22
Net income	$ 16	$ 40

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

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

	Common Stock		Other Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Total Shareholder's Equity
	Shares	Amount				
Balance, December 31, 2014	—	$ —	$ 3,128	$ 610	$ (4)	$ 3,734
Net income	—	—	—	40	—	40
Balance, March 31, 2015	—	$ —	$ 3,128	$ 650	$ (4)	$ 3,774
Balance, December 31, 2015	—	$ —	$ 3,128	$ 970	$ (4)	$ 4,094
Net income	—	—	—	16	—	16
Balance, March 31, 2016	—	$ —	$ 3,128	$ 986	$ (4)	$ 4,110

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

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

	Three-Month Periods Ended March 31,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$ 16	$ 40
Adjustments to reconcile net income to net cash flows from operating activities:		
Gain on nonrecurring items	—	(3)
Depreciation and amortization	104	101
Deferred income taxes and amortization of investment tax credits	9	22
Allowance for equity funds	(2)	(1)
Changes in regulatory assets and liabilities	4	(2)
Deferred energy	46	65
Amortization of deferred energy	(23)	28
Other, net	—	(18)
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	69	(17)
Inventories	—	(2)
Accounts payable and other liabilities	(6)	(60)
Net cash flows from operating activities	217	153
Cash flows from investing activities:		
Capital expenditures	(146)	(115)
Proceeds from sale of assets	—	9
Purchases of marketable securities	(7)	(7)
Proceeds from sale of marketable securities	—	13
Other, net	—	1
Net cash flows from investing activities	(153)	(99)
Cash flows from financing activities:		
Repayments of subsidiary long-term debt and financial and capital lease obligations	(215)	(252)
Net proceeds from short-term debt	—	30
Net cash flows from financing activities	(215)	(222)
Net change in cash and cash equivalents	(151)	(168)
Cash and cash equivalents at beginning of period	634	262
Cash and cash equivalents at end of period	$ 483	$ 94

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

(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").

The unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the unaudited Consolidated Financial Statements as of March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015. The Consolidated Statements of Comprehensive Income have been omitted as net income equals comprehensive income for the three-month periods ended March 31, 2016 and 2015. The results of operations for the three-month period ended March 31, 2016 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through May 11, 2016, which is the date the unaudited Consolidated Financial Statements were available to be issued.

The preparation of the unaudited Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited Consolidated Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Consolidated Financial Statements. Note 2 of Notes to Consolidated Financial Statements included in the Company's unaudited Consolidated Financial Statements for the year ended December 31, 2015 describes the most significant accounting policies used in the preparation of the unaudited Consolidated Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the three-month period ended March 31, 2016.

(2) New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, which creates FASB Accounting Standards Codification ("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. 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 is currently evaluating the impact of adopting this guidance 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. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Company is currently evaluating the impact of adopting this guidance on its Consolidated Financial Statements and disclosures included within Notes to Consolidated Financial Statements.

(3) Property, Plant and Equipment, Net

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

	Depreciable Life	As of March 31, 2016	As of December 31, 2015
Utility plant:			
Electric generation	25 - 125 years	$ 5,356	$ 5,346
Electric distribution	20 - 70 years	4,541	4,500
Electric transmission	45 - 70 years	2,544	2,527
Electric general and intangible plant	5 - 65 years	877	833
Natural gas distribution	40 - 70 years	375	374
Natural gas general and intangible plant	8 - 10 years	15	13
Common general	5 - 65 years	264	265
Utility plant		13,972	13,858
Accumulated depreciation and amortization		(4,416)	(4,339)
Utility plant, net		9,556	9,519
Other non-regulated, net of accumulated depreciation and amortization	5 - 65 years	2	2
Plant, net		9,558	9,521
Construction work-in-progress		208	241
Property, plant and equipment, net		$ 9,766	$ 9,762

(4) Regulatory Matters

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 prudency review by the Public Utilities Commission of Nevada ("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. 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. These excess amounts are reflected in quarterly adjustments to rates and recorded as cost of fuel, energy and capacity in future time periods.

(5) Recent Financing Transactions

In April 2016, Sierra Pacific issued $400 million of its 2.60% General and Refunding Securities, Series U, due May 2026. The net proceeds will be used, together with cash on hand, to pay at maturity the $450 million principal amount of 6.00% General and Refunding Securities, Series M, maturing in May 2016.

In April 2016, Sierra Pacific repurchased at par value $58 million, plus accrued interest, of its Pollution Control Revenue Bonds Series 2006A, due 2031, and $75 million, plus accrued interest, of its Pollution Control Revenue Bonds Series 2006B, due 2036.

(6) Employee Benefit Plans

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

	Three-Month Periods Ended March 31,	
	2016	2015
Pension:		
Service cost	$ 4	$ 4
Interest cost	9	9
Expected return on plan assets	(10)	(12)
Net amortization	3	3
Net periodic benefit cost	$ 6	$ 4
Other postretirement:		
Service cost	$ 1	$ 1
Interest cost	2	1
Expected return on plan assets	(2)	(2)
Net amortization	(1)	(1)
Net periodic benefit cost	$ —	$ (1)

Employer contributions to the pension and other postretirement benefit plans are expected to be $22 million and $- million, respectively, during 2016. As of March 31, 2016, no contributions have been made to the pension and other postretirement plans.

(7) Risk Management and Hedging Activities

The Company is exposed to the impact of market fluctuations in commodity prices and interest rates. The Company is principally exposed to electricity, natural gas 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 Note 8 for additional information on derivative contracts.

The following table, which excludes contracts that have been designated as normal under the normal purchases or normal sales exception afforded by GAAP, summarizes the fair value of the Company's derivative contracts, on a gross basis, and reconciles those amounts to the amounts presented on a net basis on the Consolidated Balance Sheets (in millions):

	Other Current Liabilities	Other Long-term Liabilities	Total
As of March 31, 2016			
Commodity liabilities[1]	$ (10)	$ (13)	$ (23)
As of December 31, 2015			
Commodity liabilities[1]	$ (8)	$ (14)	$ (22)

(1) The Company's commodity derivatives not designated as hedging contracts are included in regulated rates and as of March 31, 2016 and December 31, 2015, a regulatory asset of $23 million and $22 million, respectively, was recorded related to the derivative liability of $23 million and $22 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 (in millions):

	Unit of Measure	March 31, 2016	December 31, 2015
Electricity sales	Megawatt hours	(2)	(2)
Natural gas purchases	Decatherms	228	175

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 March 31, 2016, credit ratings from the three recognized credit rating agencies were investment grade.

The aggregate fair value of the Nevada Utilities' derivative contracts in liability positions with specific credit-risk-related contingent features was $4 million as of March 31, 2016 and December 31, 2015, which represents the amount of collateral to be posted if all credit risk related contingent features for derivative contracts in liability positions had been triggered. The Nevada Utilities' collateral requirements could fluctuate considerably due to market price volatility, changes in credit ratings, changes in legislation or regulation or other factors.

(8) 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**
As of March 31, 2016				
Assets:				
Money market mutual funds[(1)]	$ 3	$ —	$ —	$ 3
Investment funds	21	—	—	21
	$ 24	$ —	$ —	$ 24
Liabilities - commodity derivatives	$ —	$ —	$ (23)	$ (23)
As of December 31, 2015				
Assets:				
Money market mutual funds[(1)]	$ 3	$ —	$ —	$ 3
Investment funds	13	—	—	13
	$ 16	$ —	$ —	$ 16
Liabilities - commodity derivatives	$ —	$ —	$ (22)	$ (22)

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

Derivative contracts are recorded on the Consolidated Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchases or normal sales and qualify for the exception afforded by GAAP. When available, the fair value of derivative contracts is estimated using unadjusted quoted prices for identical contracts in the market in which the Company transacts. When quoted prices for identical contracts are not available, the Company uses forward price curves. Forward price curves represent the Company's estimates of the prices at which a buyer or seller could contract today for delivery or settlement at future dates. The Company bases its forward price curves upon 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. Interest rate swaps are valued using a financial model which utilizes observable inputs for similar instruments based primarily on market price curves. The determination of the fair value for derivative contracts not only includes counterparty risk, but also the impact of the Company's nonperformance risk on its liabilities, which as of March 31, 2016 and December 31, 2015, 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 7 for further discussion regarding the Company's risk management and hedging activities.

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

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

	Three-Month Periods Ended March 31,	
	2016	**2015**
Beginning balance	$ (22)	$ (31)
Changes in fair value recognized in regulatory assets	(4)	(4)
Settlements	3	2
Ending balance	$ (23)	$ (33)

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 (in millions):

	As of March 31, 2016		As of December 31, 2015	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	$ 4,057	$ 4,783	$ 4,266	$ 4,844

(9) Commitments and Contingencies

Environmental Laws and Regulations

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

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 and other generating facilities. In May 2014, Nevada Power filed its Emissions Reduction Capacity Replacement Plan ("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 direction provided by the PUCN, Nevada Power acquired a 272-megawatt ("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, and contracted two renewable power purchase agreements with 100-MW solar photovoltaic generating facilities in 2015. In February 2016, Nevada Power solicited proposals to acquire 35 MW of nameplate renewable energy capacity to be owned by Nevada Power and solicited a long-term power purchase agreement for a minimum of 100-MW of nameplate renewable energy capacity in Nevada. These solicitations are related to Nevada Power's final steps to comply 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors that have affected the consolidated financial condition and results of operations of NV Energy, Inc. ("NV Energy"), a holding company that owns Nevada Power Company ("Nevada Power") and Sierra Pacific Power Company ("Sierra Pacific") (collectively, the "Nevada Utilities") and certain other subsidiaries (collectively, the "Company") during the periods included herein. Explanations include management's best estimate of the impact of weather, customer growth and other factors. This discussion should be read in conjunction with the Company's historical unaudited Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report. The Company's actual results in the future could differ significantly from the historical results.

Forward-Looking Statements

The Company may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond its control. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost recovery, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of the Company's expectations, beliefs, future plans and strategies, anticipated events or trends and similar comments concerning matters that are not historical facts. These types of forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results and performance of the Company to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. Important factors that could cause actual results to differ materially from those expectations include: market-related effects on revenues and other operating uncertainties, uncertainties relating to economic and political conditions and uncertainties regarding the impact of regulations, changes in government policy and competition. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing factors should not be construed as exclusive.

Results of Operations for the First Quarter of 2016 and 2015

Net income for the first quarter of 2016 was $16 million, a decrease of $24 million, or 60%, compared to 2015 due to benefits from changes in contingent liabilities in 2015, higher planned maintenance and other generating costs, lower margins from changes in usage patterns with commercial and industrial customers and lower transmission demand, a gain on the sale of an equity investment in 2015, increased taxes due to a new state commerce tax and increases in property and franchise taxes, and higher interest on deferred charges, partially offset by higher natural gas margins from increased customer usage due to the impacts of weather.

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

	First Quarter			
	2016	2015	Change	
Operating revenue:				
Regulated electric	$ 569	$ 655	$ (86)	(13) %
Regulated natural gas	47	50	(3)	(6)
Nonregulated	—	1	(1)	*
Total operating revenue	616	706	(90)	(13)
Cost of fuel, energy and capacity	238	322	(84)	(26)
Natural gas purchased for resale	30	35	(5)	(14)
Gross margin	$ 348	$ 349	$ (1)	—

* Not meaningful

Gross margin decreased $1 million for the first quarter of 2016 compared to 2015 due to:

- $4 million in usage patterns for commercial and industrial customers and
- $1 million in lower transmission demand.

The decrease in gross margin was partially offset by:

- $2 million in higher energy efficiency program rate revenue, which is offset in operating and maintenance expense and
- $2 million in higher natural gas customer usage, primarily from the impacts of weather.

Operating and maintenance increased $27 million, or 23%, for the first quarter of 2016 compared to 2015 due to benefits from changes in contingent liabilities in 2015, higher planned maintenance and other generating costs, and higher energy efficiency program costs, which are fully recovered in operating revenue.

Depreciation and amortization increased $3 million, or 3%, for the first quarter of 2016 compared to 2015 due to higher plant in‑service.

Other income (expense) is unfavorable $5 million, or 9%, for the first quarter of 2016 compared to 2015 due to a gain on the sale of an equity investment in March 2015 and higher interest on deferred charges.

Income tax expense decreased $13 million, or 59%, for the first quarter of 2016 compared to 2015. The effective tax rate was 36% for 2016 and 35% for 2015.