



NV Energy, Inc. and Subsidiaries

**Consolidated Financial Statements (Unaudited)
as of and for the
Quarterly Period Ended September 30, 2017**

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	
	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 109	\$ 330
Accounts receivable, net	459	293
Inventories	106	118
Regulatory assets	72	45
Other current assets	70	51
Total current assets	816	837
Property, plant and equipment, net	9,752	9,819
Regulatory assets	1,510	1,410
Other assets	73	64
Total assets	\$ 12,151	\$ 12,130
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 227	\$ 234
Accrued interest	57	66
Accrued property, income and other taxes	64	35
Regulatory liabilities	52	106
Current portion of long-term debt and financial and capital lease obligations	843	18
Customer deposits	93	95
Other current liabilities	51	50
Total current liabilities	1,387	604
NV Energy long-term debt	313	313
Subsidiary long-term debt and financial and capital lease obligations	3,382	4,201
Regulatory liabilities	646	637
Deferred income taxes	2,204	2,035
Other long-term liabilities	420	405
Total liabilities	8,352	8,195
Commitments and contingencies (Note 9)		
Shareholder's equity:		
Common stock - \$0.01 par value; 1,000 shares authorized, 1 share issued and outstanding	—	—
Other paid-in capital	3,128	3,128
Retained earnings	675	811
Accumulated other comprehensive loss, net	(4)	(4)
Total shareholder's equity	3,799	3,935
Total liabilities and shareholder's equity	\$ 12,151	\$ 12,130

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		Nine-Month Periods	
	Ended September 30,		Ended September 30,	
	2017	2016	2017	2016
Operating revenue:				
Electric	\$ 1,033	\$ 973	\$ 2,318	\$ 2,229
Natural gas	15	15	66	81
Total operating revenue	<u>1,048</u>	<u>988</u>	<u>2,384</u>	<u>2,310</u>
Operating costs and expenses:				
Cost of fuel, energy and capacity	394	324	914	826
Natural gas purchased for resale	4	5	26	42
Operating and maintenance	138	146	402	433
Depreciation and amortization	106	106	316	315
Property and other taxes	16	16	47	49
Total operating costs and expenses	<u>658</u>	<u>597</u>	<u>1,705</u>	<u>1,665</u>
Operating income	<u>390</u>	<u>391</u>	<u>679</u>	<u>645</u>
Other income (expense):				
Interest expense	(60)	(63)	(180)	(198)
Allowance for borrowed funds	2	—	2	3
Allowance for equity funds	1	1	3	5
Other, net	9	9	25	21
Total other income (expense)	<u>(48)</u>	<u>(53)</u>	<u>(150)</u>	<u>(169)</u>
Income before income tax expense	342	338	529	476
Income tax expense	123	121	190	171
Net income	<u>\$ 219</u>	<u>\$ 217</u>	<u>\$ 339</u>	<u>\$ 305</u>

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

	Common Stock		Other Paid-in Capital	Retained Earnings	Accumulated	Total Shareholder's Equity
	Shares	Amount			Other Comprehensive Loss, Net	
Balance, December 31, 2015	1	\$ —	\$ 3,128	\$ 970	\$ (4)	\$ 4,094
Net income	—	—	—	305	—	305
Dividends declared	—	—	—	(400)	—	(400)
Other equity transactions	—	—	—	(1)	—	(1)
Balance, September 30, 2016	<u>1</u>	<u>\$ —</u>	<u>\$ 3,128</u>	<u>\$ 874</u>	<u>\$ (4)</u>	<u>\$ 3,998</u>
Balance, December 31, 2016	1	\$ —	\$ 3,128	\$ 811	\$ (4)	\$ 3,935
Net income	—	—	—	339	—	339
Dividends declared	—	—	—	(475)	—	(475)
Balance, September 30, 2017	<u>1</u>	<u>\$ —</u>	<u>\$ 3,128</u>	<u>\$ 675</u>	<u>\$ (4)</u>	<u>\$ 3,799</u>

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

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

	Nine-Month Periods	
	Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 339	\$ 305
Adjustments to reconcile net income to net cash flows from operating activities:		
Gain on nonrecurring items	(1)	—
Depreciation and amortization	316	315
Deferred income taxes and amortization of investment tax credits	177	171
Allowance for equity funds	(3)	(5)
Changes in regulatory assets and liabilities	34	125
Deferred energy	(45)	52
Amortization of deferred energy	(30)	(122)
Other, net	(5)	2
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	(171)	(59)
Inventories	4	8
Accrued property, income and other taxes	21	12
Accounts payable and other liabilities	24	(19)
Net cash flows from operating activities	<u>660</u>	<u>785</u>
Cash flows from investing activities:		
Capital expenditures	(333)	(386)
Acquisitions	(77)	—
Purchases of marketable securities	(7)	(7)
Other, net	7	—
Net cash flows from investing activities	<u>(410)</u>	<u>(393)</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	(87)	(1,358)
Dividends paid	(475)	(400)
Net cash flows from financing activities	<u>(471)</u>	<u>(669)</u>
Net change in cash and cash equivalents	(221)	(277)
Cash and cash equivalents at beginning of period	330	634
Cash and cash equivalents at end of period	<u>\$ 109</u>	<u>\$ 357</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.

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 September 30, 2017 and for the three- and nine-month periods ended September 30, 2017 and 2016. The Consolidated Statements of Comprehensive Income have been omitted as net income equals comprehensive income for the three- and nine-month periods ended September 30, 2017 and 2016. The results of operations for the three- and nine-month periods ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through November 14, 2017, 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, 2016 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 nine-month period ended September 30, 2017.

(2) New Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-07, which amends FASB Accounting Standards Codification ("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, for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. 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, with early adoption permitted. The Company plans to adopt this guidance effective January 1, 2018. The Company does not believe this will 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, for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. This guidance is required to be adopted retrospectively, with early adoption permitted. The Company plans to adopt this guidance effective January 1, 2018 and does not believe the adoption of this guidance will 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, for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. This guidance is required to be adopted retrospectively, with early adoption permitted. The Company plans to adopt this guidance effective January 1, 2018 and does not believe the adoption of this guidance will 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. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2019 and interim reporting periods within annual reporting periods beginning after December 15, 2020. This guidance is required to be adopted using a modified retrospective approach, with early adoption permitted. 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, for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019, with early adoption permitted. 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 plans to adopt this guidance effective January 1, 2018 under the modified retrospective method and is currently evaluating the impact on its Consolidated Financial Statements and disclosures included within Notes to Consolidated Financial Statements. The Company currently does not expect the timing and amount of revenue currently recognized to be materially different after adoption of the new guidance 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 segment and customer class.

(3) Property, Plant and Equipment, Net

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

	Depreciable Life	As of	
		September 30, 2017	December 31, 2016
Utility plant:			
Electric generation	25 - 60 years	\$ 4,865	\$ 5,408
Electric distribution	20 - 100 years	4,739	4,648
Electric transmission	45 - 100 years	2,642	2,617
Electric general and intangible plant	5 - 70 years	966	902
Natural gas distribution	35 - 70 years	388	381
Natural gas general and intangible plant	5 - 70 years	14	15
Common general	5 - 70 years	290	267
Utility plant		13,904	14,238
Accumulated depreciation and amortization		(4,336)	(4,647)
Utility plant, net		9,568	9,591
Other non-regulated, net of accumulated depreciation and amortization	45 - 70 years	7	7
Plant, net		9,575	9,598
Construction work-in-progress		177	221
Property, plant and equipment, net		<u>\$ 9,752</u>	<u>\$ 9,819</u>

During 2016, Sierra Pacific revised its electric and gas depreciation rates based on the results of a new depreciation study, the most significant impact of which was shorter estimated useful lives at the Valmy Generating Station. The effect of this change will increase depreciation and amortization expense by \$9 million annually based on depreciable plant balances at the time of the change. However, the Public Utilities Commission of Nevada ("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

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. 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.

Regulatory Rate Review

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 MWs of net metering at the grandfathered rates. Sierra Pacific believes the effects of the PUCN decision result 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.

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 the Nevada Utilities. 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. In May 2017, a stipulation reached between MGM, Regulatory Operations Staff and the Bureau of Consumer Protection was filed requiring Nevada Power to credit \$16 million as an offset against MGM's remaining impact fee obligation and, 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 the Nevada Utilities. 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 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 the Nevada Utilities. 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 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 May 2017, Peppermill Resort Spa Casino ("Peppermill"), 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 the Nevada Utilities. 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 Replacement 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 9 for additional information on the ERCR Plan.

(5) Recent Financing Transactions

In January 2017, Nevada Power (1) issued a notice to the bondholders for the repurchase of the remaining outstanding amounts of its \$38 million Pollution Control Revenue Bonds, Series 2006 and \$38 million Pollution Control Revenue Bonds, Series 2006A and (2) redeemed the Pollution Control Revenue Bonds, Series 2006A, aggregate principal amount outstanding plus accrued interest with the use of cash on hand. In February 2017, Nevada Power redeemed the Pollution Control Revenue Bonds, Series 2006, aggregate principal amount outstanding plus accrued interest with the use of cash on hand.

In May 2017, Nevada Power entered into a Financing Agreement with Clark County, Nevada (the "Clark Issuer") whereby the Clark Issuer loaned to Nevada Power the proceeds from the issuance, on behalf of Nevada Power, of \$39.5 million of its 1.60% tax-exempt Pollution Control Refunding Revenue Bonds, Series 2017, due 2036 ("Series 2017 Bonds"). The Series 2017 Bonds are subject to mandatory purchase by Nevada Power in May 2020, and on and after the purchase date, the interest rate may be adjusted from time to time.

In May 2017, Nevada Power entered into a Financing Agreement with the Coconino County, Arizona Pollution Control Corporation (the "Coconino Issuer") whereby the Coconino Issuer loaned to Nevada Power the proceeds from the issuance, on behalf of Nevada Power, of \$40 million of its 1.80% tax-exempt Pollution Control Refunding Revenue Bonds, Series 2017A, due 2032 and \$13 million of its 1.60% tax-exempt Pollution Control Refunding Revenue Bonds, Series 2017B, due 2039 (collectively, the "Series 2017AB Bonds"). The Series 2017AB Bonds are subject to mandatory purchase by Nevada Power in May 2020, and on and after the purchase date, the interest rate may be adjusted from time to time.

To provide collateral security for its obligations, Nevada Power issued its General and Refunding Mortgage Notes, Series AA, No. AA-1 in the amount of \$39.5 million and No. AA-2 in the amount of \$53 million (collectively, the "Series AA Notes"). The obligation of Nevada Power to make any payment of the principal and interest on any Series AA Notes is discharged to the extent Nevada Power has made payment on the Series 2017 Bonds and the Series 2017AB Bonds.

The collective proceeds from the tax-exempt bond issuances were used to refund at par value, plus accrued interest, the Clark Issuer's \$39.5 million of Pollution Control Refunding Revenue Bonds, Series 2006 and the Coconino Issuer's \$40 million of Pollution Control Refunding Revenue Bonds, Series 2006A and \$13 million of Pollution Control Refunding Revenue Bonds, Series 2006B, each previously issued on behalf of Nevada Power.

In June 2017, Nevada Power amended its \$400 million secured credit facility, extending the maturity date to June 2020 with two one-year extension options subject to lender consent. The amended 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 Nevada Power's option, plus a spread that varies based on Nevada Power's credit ratings for its senior secured long-term debt securities. The amended credit facility requires Nevada Power's ratio of consolidated debt, including current maturities, to total capitalization not to exceed 0.65 to 1.0 as of the last day of each quarter.

In June 2017, Sierra Pacific amended its \$250 million secured credit facility, extending the maturity date to June 2020 with two one-year extension options subject to lender consent. The amended 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. The amended 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) Employee Benefit Plans

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

	Three-Month Periods		Nine-Month Periods	
	Ended September 30,	Ended September 30,	Ended September 30,	Ended September 30,
	2017	2016	2017	2016
Pension:				
Service cost	\$ 4	\$ 3	\$ 11	\$ 11
Interest cost	9	9	27	28
Expected return on plan assets	(11)	(10)	(33)	(31)
Net amortization	4	4	11	10
Net periodic benefit cost	<u>\$ 6</u>	<u>\$ 6</u>	<u>\$ 16</u>	<u>\$ 18</u>
Other postretirement:				
Service cost	\$ —	\$ —	\$ 1	\$ 1
Interest cost	1	2	4	5
Expected return on plan assets	(1)	(2)	(4)	(5)
Net amortization	(1)	—	(3)	(2)
Net periodic benefit cost	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ (1)</u>

Employer contributions to the pension and other postretirement benefit plans are expected to be \$2 million and \$4 million, respectively, during 2017. As of September 30, 2017, \$1 million and \$4 million of contributions have been made to the pension and other postretirement benefit plans, respectively.

(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, 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
<u>As of September 30, 2017</u>			
Commodity liabilities ⁽¹⁾	\$ (3)	\$ (1)	\$ (4)
<u>As of December 31, 2016</u>			
Commodity liabilities ⁽¹⁾	\$ (7)	\$ (7)	\$ (14)

(1) The Company's commodity derivatives not designated as hedging contracts are included in regulated rates and as of September 30, 2017 and December 31, 2016, a regulatory asset of \$4 million and \$14 million, respectively, was recorded related to the derivative liability of \$4 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 (in millions):

	Unit of Measure	As of	
		September 30, 2017	December 31, 2016
Electricity sales	Megawatt hours	—	(2)
Natural gas purchases	Decatherms	210	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 September 30, 2017, 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 \$2 million as of September 30, 2017 and December 31, 2016, 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 financial 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 September 30, 2017				
Assets:				
Money market mutual funds ⁽¹⁾	\$ 3	\$ —	\$ —	\$ 3
Investment funds	25	—	—	25
	<u>\$ 28</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28</u>
Liabilities - commodity derivatives	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (4)</u>	<u>\$ (4)</u>
As of December 31, 2016				
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 September 30, 2017 and December 31, 2016, 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 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 (in millions):

	Three-Month Periods		Nine-Month Periods	
	Ended September 30,		Ended September 30,	
	2017	2016	2017	2016
Beginning balance	\$ (4)	\$ (23)	\$ (14)	\$ (22)
Changes in fair value recognized in regulatory assets	(1)	—	(3)	(6)
Settlements	1	4	13	9
Ending balance	<u>\$ (4)</u>	<u>\$ (19)</u>	<u>\$ (4)</u>	<u>\$ (19)</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 (in millions):

	As of September 30, 2017		As of December 31, 2016	
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
Long-term debt	<u>\$ 4,032</u>	<u>\$ 4,608</u>	<u>\$ 4,013</u>	<u>\$ 4,587</u>

(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 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.

**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 Third Quarter and First Nine Months of 2017 and 2016

Net income for the third quarter of 2017 was \$219 million, an increase of \$2 million, or 1%, compared to 2016 due to lower interest on deferred charges of \$3 million and higher electric gross margins of \$1 million, excluding the impact of energy efficiency program revenue (offset in operating and maintenance expense), partially offset by higher operating and maintenance expense of \$2 million, excluding the impact of energy efficiency program expense (offset in operating revenue).

Net income for the first nine months of 2017 was \$339 million, an increase of \$34 million, or 11%, compared to 2016 due to higher electric gross margins of \$25 million, excluding the impact of energy efficiency program revenue (offset in operating and maintenance expense), and lower interest expense of \$18 million on lower deferred charges and from lower rates on outstanding debt balances. Electric gross margins increased due to higher customer usage from the impacts of weather, an increase in the average number of customers, customer usage patterns and an increase in transmission revenues.

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):

	Third Quarter				First Nine Months			
	2017	2016	Change		2017	2016	Change	
Operating revenue:								
Electric	\$ 1,033	\$ 973	\$ 60	6 %	\$ 2,318	\$ 2,229	\$ 89	4 %
Natural gas	15	15	—	—	66	81	(15)	(19)
Total operating revenue	1,048	988	60	6	2,384	2,310	74	3
Cost of fuel, energy and capacity	394	324	70	22	914	826	88	11
Natural gas purchased for resale	4	5	(1)	(20)	26	42	(16)	(38)
Gross margin	\$ 650	\$ 659	\$ (9)	(1)	\$ 1,444	\$ 1,442	\$ 2	—

Gross margin decreased \$9 million, or 1%, for the third quarter of 2017 compared to 2016 due to:

- \$15 million in lower commercial and industrial retail revenue from customers purchasing energy from alternative providers and becoming distribution only service customers;
- \$10 million in lower energy efficiency program revenue (offset in operating and maintenance expense);
- \$9 million from a refinement of the unbilled revenue estimate and
- \$2 million in decreased wholesale revenue due to lower volumes.

The decrease in gross margin was offset by:

- \$12 million in higher transmission and other retail revenue primarily from impact fees and revenue relating to customers becoming distribution only service customers;
- \$8 million from customer usage patterns;
- \$4 million higher customer usage primarily from the impacts of weather and
- \$3 million due to customer growth.

Operating and maintenance decreased \$8 million, or 5%, for the third quarter of 2017 compared to 2016 primarily due to lower energy efficiency program expense (offset in operating revenue).

Other income (expense) is favorable \$5 million, or 9%, for the third quarter of 2017 compared to 2016 primarily due to lower interest on deferred charges.

Income tax expense increased \$2 million, or 2%, for the third quarter of 2017 compared to 2016. The effective tax rate was 36% in 2017 and 2016.

Gross margin increased \$2 million for the first nine months of 2017 compared to 2016 due to:

- \$28 million in higher transmission and other retail revenue primarily from impact fees and revenue relating to customers becoming distribution only service customers;
- \$8 million from customer usage patterns;
- \$8 million higher customer usage primarily from the impacts of weather and
- \$8 million due to customer growth.

The increase in gross margin was partially offset by:

- \$24 million in lower commercial and industrial retail revenue from customers purchasing energy from alternative providers and becoming distribution only service customers;
- \$23 million in lower energy efficiency program revenue (offset in operating and maintenance expense) and
- \$4 million in decreased wholesale revenue due to lower volumes.

Operating and maintenance decreased \$31 million, or 7%, for the first nine months of 2017 compared to 2016 due to lower energy efficiency program expense (offset in operating revenue), lower planned maintenance and lower other operating costs, partially offset by higher operating and maintenance related regulatory credit amortizations.

Other income (expense) is favorable \$19 million, or 11%, for the first nine months of 2017 compared to 2016 due to lower interest on deferred charges and a decrease in interest expense from lower rates on outstanding debt balances, partially offset by lower allowance for funds used during construction.

Income tax expense increased \$19 million, or 11%, for the first nine months of 2017 compared to 2016. The effective tax rate was 36% in 2017 and 2016.