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NRG Energy, Inc. (NRG)

Q4 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NRG Energy, Inc. 4Q 2016 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. I'd like to introduce your host for today's conference, Mr. Kevin Cole, Head of Investor Relations. Sir, please begin.

Kevin L. Cole

Senior Vice President, Investor Relations, NRG Energy, Inc.

Thank you, Vince. Good morning and welcome to NRG Energy's full year and fourth quarter 2016's earnings call. This morning's call is being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations and Webcasts.

As this is the earnings call for NRG Energy, any statement made on this call that may pertain to NRG Yield will be provided from the NRG perspective. Please note that today's discussion may contain forward-looking statements, which are based on assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation as well as the risk factors in our SEC filings. We undertake no obligation to update these statements as a result of future events, except as required by law.

In addition, we will refer to both GAAP and non-GAAP financial measures. For information regarding our non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures, please refer to today's press release and this presentation.

Now, with that, I'll turn the call over to Mauricio Gutierrez, NRG's President and Chief Executive Officer.

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Thank you, Kevin, and thank you, everyone, for your interest in NRG. Joining me this morning is Kirk Andrews, our Chief Financial Officer. Also on the call and available for questions, we have Elizabeth Killinger, Head of our Retail business; and Chris Moser, Head of Operations.

Before I turn to our presentation, I would like to acknowledge Howard Cosgrove and Ed Muller for their years of service as directors on the NRG board. I want to thank them for their dedication and wish them well in their next endeavors.

Let me also congratulate our current Director, Larry Coben, on his appointment as Chairman of the Board. I'd also like to welcome our two new board members, John Wilder and Barry Smitherman. I look forward to working with both of them on all of the exciting opportunities ahead for NRG.

2016 was a pivotal year for our company. Just one year ago, I made a commitment to simplify our business, strengthen our platform and restore confidence in our direction and decision making. We have made significant progress on all fronts. Today, NRG is in a much better place to continue executing on our multiyear strategic plan to solidify our position as the premier integrated power company in the country.

Let's move now to slide 3, where I'd like to summarize the key highlights from today's call. First, we delivered on our numbers. Our track record of strong results and execution continued in 2016. We had our second best safety performance year on record and our integrated platform delivered earnings that were even stronger than last year. We grew both adjusted EBITDA and free cash flow before growth despite the difficult commodity price environment that reduced our total generation by 14% from 2015.

Our Retail business delivered its third consecutive year or EBITDA growth with a record adjusted EBITDA of just over \$800 million. NRG's best-in-class platform has again demonstrated its ability to provide strong, stable results despite challenging market conditions. For these reasons, I'm also able to reaffirm our 2017 financial guidance. I want to thank all my colleagues for a job well done on a very successful year.

Second, we executed on our priorities. Our focus over the past year in simplifying and streamlining our business resulted in over \$0.5 billion in cost reductions. We made progress in repositioning our portfolio by selling assets at value, and executing several capital projects on time and on budget. We strengthened our balance sheet by reducing corporate debt by \$1 billion and extending \$6 billion of debt maturities well beyond 2020. Last, we reinvigorated our strategic partnership with NRG Yield by putting in place a dedicated management team and expanding our Renewables business and ROFO pipeline.

Third, we're not done yet. As we closed out the first phase of deleveraging, cost cutting and business optimization efforts, we now turn to the next phase of our plan. We're in a much better position today to benefit from market opportunities than we were one year ago.

But before discussing details of our 2016 results and 2017 plans, I want to remind you of what underpins our continued strong results and sets NRG apart from others in the industry on slide 4. NRG's differentiated business model is simple and focuses on our competitive advantage; the integration of Generation, which includes Renewables and Retail. This integrated platform and the touch points between these primary businesses allow us to capture operational and commercial synergies in a way that makes the whole of our business greater than the sum of its parts.

NRG's unique value proposition centers on stability. Our diverse portfolio minimizes our exposure to market and fuel-specific downturns, while our diverse business lines create a stable base of free cash flows, particularly the natural hedge between Retail and Generation. In 2017, we're estimating the three-quarters of our gross margin will come from stable sources, such as retail, contracted assets, including NRG Yield, and capacity revenues. We have built a business that is not dependent on commodity prices to deliver strong results, but that remains well positioned to benefit from upside in a commodity market we cover.

As we manage our business for stable, visible free cash flows, we maintain the ability to grow and quickly replenish capital. We achieved these through our strategic partnership with NRG Yield, which serves as another unique differentiator of our business and is an important driver of our ability to participate in the growing Renewable segment.

Turning to slide 5, I want to reiterate my belief that the competitive power sector is in a period of unprecedented disruption. Changes in fuel mix, consumer preference, technological innovation and increased distributed generation have put pressure on the traditional IPP model, particularly as commodity markets continue to weaken. While sufficient at the outset of competitive markets, I believe the IPP model is now obsolete and unable to create value over the long term.

On our fourth quarter call last year, I highlighted the six elements that I believe are now required to succeed in the competitive power sector. These, starting with excellence in operations and execution; diversification, both in terms of Generation portfolio and business lines; and a scalable platform for growth. NRG was already strong in these three areas and the results achieved throughout the past year further confirm this assessment.

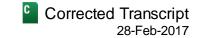
So, our focus turned to the remaining three attributes. First, we needed to ensure that we were operating a platform efficiently. This meant simplifying by focusing on our core Generation and Retail businesses and divesting from non-core and underperforming businesses. Furthermore, we focused on reducing costs, taking over \$0.5 billion out of NRG's total cost structure. These combined efforts have greatly strengthened our business compared to where we were one year ago.

The remaining attributes required implementing a more flexible, transparent approach to capital allocation and achieving a more resilient capital structure given the sustained low commodity price environment. As a result, we refocused a substantial amount of our capital to deleveraging in 2016, freeing up additional capital by adjusting our dividend policy. Importantly, we also changed the way we allocate capital for growth by refocusing on projects that offer high returns and quick paybacks.

Going forward, you can expect the same discipline we brought in 2016 to be applied to the next phase of execution. And I will continue with my philosophy of no head scratchers when it comes to understanding how we allocate capital. And with a focus on the new Business Review Committee well aligned with our strategic priorities, we look forward to its role in our review process and the continued execution on the three priorities outlined here.

Turning to slide 6, I'd like to provide you more detail around our cost reduction initiatives and the next phase of our plan as we move into 2017. I am very pleased to report that not only have we already achieved our \$400 million total cost savings target, we have exceeded it, reducing our total cost by \$539 million compared to our 2015 baseline. Reducing our cost was not just the focus of management, but a focus of all employees throughout our organization, and I am very pleased with the progress we have made to date.

Q4 2016 Earnings Call



My promise to you was to not only hit our targeted cost savings, but to report our savings in a way that was more transparent and held us accountable. The left side of the page is a view of our total cost structure, sales and marketing, G&A, O&M and development. As you may recall, last year we combined all of our cost savings initiatives under one comprehensive program, but you can still track individual items in our 10-K disclosures.

With our current target met and exceeded ahead of our initial timeframe, we continue on our focus on streamlining and optimizing our business. We are already working on our next round of forNRG cost-cutting initiatives. But given the scope of the Business Review Committee, it is appropriate to delay a public announcement of the new set of targets until later in the year.

Now turning to slide 7, as I discussed earlier, the breadth and scale of our platform is a clear competitive advantage. But I also understand that it can complicate the ability to properly unpack our cost structure. The objective today is to help further simplify the investment proposition by enhancing the visibility into our cost structure. While I will discuss the highlights in the slide, the full detail behind these numbers can be found on the appendix of today's presentation and will map to our 2016 10-K disclosures.

As I'm sure you're all aware, comparing costs from one company to the next can be challenging. So before I get into detail, let me put more context around this analysis. First, given the business and technology diversity that drives our integrated platform, benchmarking NRG's consolidated cost to those of a pure IPP is simply not correct. So, in our disclosure, we have isolated the cost structures within each of our reported businesses as a means to compare our cost to appropriate peer companies.

Second, costs are somewhat fungible between different categories. And even within the small competitive power group, there are notable differences in cost categorization. To account for this difference, it is important to capture these combined costs, both expensed and capitalized, to fully appreciate a company's baseline cost structure.

Now, going into the detail on each of our segments. In Generation, I want to remind you that our current Generation business is the result of consolidating four generation companies over the past five years, NRG, RRI, Edison Mission, and Mirant. And during this time, significant cost synergies were realized as part of the integration efforts.

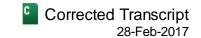
This discipline continues today, and on an adjusted basis, our Generation segment carries a total cost of almost \$50 per kilowatt, a number that is slightly lower than that of our closest peers. For this business, we focus on \$1 per kW metric given that a substantial portion of our fleet in the Northeast is reliability focused, capturing significant capacity and scarcity revenues, while generating a lower number of megawatt hours.

In addition, to maintain comparability, we have backed out cost associated with our nuclear unit ownership that NRG is the only competitive power generator with this higher fixed cost, lower fuel cost technology. While our generation cost per kW are in line with our peers, we're continually focused on driving further cost savings by improving upon efficiencies in fleet operations and asset optimization efforts.

Next on Retail, with nearly 3 million customers, most of whom are residential customers located in Texas, NRG operates the leading residential retail platform in the country, and the stable margins from Retail are an important driver of our free cash flow each quarter.

Our Retail business maintains a relentless focus on meeting evolving customer needs and on continuous improvement, which have driven expansion of both our customer base and earnings. Benchmarking cost in Retail

Q4 2016 Earnings Call



is difficult given the differences in customer, product and regional mix from one company to the next, and because other retailers provide little visibility into the breakdown of their cost structures.

Finally, moving to Renewables, as I highlighted earlier, Renewables are a pillar of our growth and portfolio repositioning. Today, NRG, together with NRG Yield, has one of the largest renewable energy platforms in the country, and we're able to leverage our expertise within our other segments to continue to develop and operate this fleet. The operating cost as reported for NRG's Renewables segment is \$91 per kW. But important to note, this includes assets such as the Ivanpah concentrated solar thermal facility, which has a higher cost structure given the emerging nature of this technology.

The more appropriate metric is that of our combined Renewables segments in NRG and NRG Yield, which captures the full cost structure of our renewables operations across our entire fleet. This combined view cost of \$67 per kW, as you can see, is in line with peers, and we continue to improve.

Since we reintegrated our Renewables group last year, we have driven further improvement in this area through transitioning large portions of our fleet to sales performance of O&M. Additionally, we are focused on adding simpler mainstream technologies to our fleet with a core focus on utility-scale solar, which can be operated at \$20 per kW and utility-scale wind at \$50 per kW. As a result of these initiatives, you should expect our Renewable cost structure to step down over time.

The goal of the disclosures is to provide you greater visibility into our overall cost structure and the metric that you can compare to peers. But what I want to make clear is that being in line with peers does not mean we're done looking for areas to improve. Assessing and reducing our costs is an ongoing process and we will always aim for increased position.

Now, on slide 8, I'd like to provide a summary of the many ways in which we repositioned our portfolio during the past year. As part of our normal course of business, we put our entire portfolio through a rigorous review process. The result can lead to everything from fuel conversions to asset sales, to realigning our portfolio to the most compelling market opportunity.

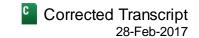
In 2016, we took significant steps to strengthen our generational fleet. We sold four assets at value for \$550 million, exceeding our original target by 10%. We modernized our fleet and converted 2.2 gigawatts of coal plants to natural gas, benefiting from lower gas prices and capacity revenues. We brought online our first of a kind carbon capture facility, Petra Nova, on time and on budget.

We pursued growth opportunities in both conventional and renewable plants, looking for areas of quick capital replenishment as highlighted by the 1.5 gigawatt renewable portfolio acquisition from SunEdison that we closed last year. For this transaction, we have already recovered 100% of our total utility-scale purchase price, with just the first 265 megawatt dropdown to NRG Yield. This means we have over 1 gigawatt of projects in this portfolio at effectively zero cost.

Looking forward, we will continue our rigorous review process, assessing the current market and developing solutions that optimize our fleet and strengthen our platform. I would expect these to include further asset dispositions at value.

Turning to slide 9, I want to provide an update on our Capital Allocation Plan. As I laid out on the fourth quarter call of last year, my primary objective for capital allocation was to ensure the robustness of our balance sheet

Q4 2016 Earnings Call



when deploying capital, and provide our shareholders with greater visibility into our capital allocation decision making.

In an effort to begin to better align to the market cycle, the transition in capital allocation mix between 2015 to 2016 reflects the recognition that we needed to focus our efforts more on deleveraging, and leave no doubt on our ability to withstand a prolonged period of low commodity prices.

For 2017, we will continue to strengthen our balance sheet and pay down debt, expanding our current program with an additional \$200 million through the end of this year. Approximately 70% of every dollar we allocate will go toward this effort as we aim to maintain a cycle-appropriate level of leverage. This will ensure we have the financial flexibility to take advantage of market opportunities when the market recovers.

We will also continue to pursue low-cost options for growth where we have an ability to generate the strong returns in a relatively short period of time, which can be viewed as temporal capital for NRG.

So with that, I will turn it over to Kirk now for the financial review.

Kirkland B. Andrews

Executive Vice President and Chief Financial Officer, NRG Energy, Inc.

Thank you, Mauricio, and good morning, everyone. Beginning with the financial summary on slide 11, before I review the full-year results, I'd like to take a moment to highlight a change we've made to both our segment disclosure for 2016 and our guidance breakdown. We're now combining both Mass Retail and Business Solutions into a single Retail segment in order to bring all of our direct customer-facing businesses together as a single segment.

Business Solutions, which consists of our C&I, demand response and other B2B initiatives, was previously part of the Generation segment. Our results for 2016 as well as our guidance for 2017 now reflect this change, which we believe will provide greater clarity of disclosure in helping our investors better understand the NRG value proposition.

Turning to 2016 financial results, NRG delivered \$3.257 billion in adjusted EBITDA and \$1.2 billion in consolidated free cash flow before growth. Our results highlight the benefits and resilience of our integrated platform as the low commodity price environment helped Retail deliver \$800 million in adjusted EBITDA. Mass Retail contributed \$755 million of this total, in line with the midpoint of our latest guidance for Mass Retail, which was announced on our third quarter call.

Generation and Renewables achieved \$1.547 billion in adjusted EBITDA, while NRG Yield, aided primarily by robust wind conditions through the year, contributed \$899 million. We ended 2016 having completed \$1 billion of our \$1.4 billion corporate debt reduction program, the balance of which is part of our 2017 capital allocation to retire the remainder of our 2018 bond maturity.

When combined with the retirement of our convertible preferred and the extension of corporate debt maturities at more favorable rates, including the recent refinancing of our term loan, which occurred in January, our deleveraging efforts have generated in total almost \$100 million in annual interest and dividend savings, significantly improving NRG-level free cash flow.

Earlier this month, NRG received \$128 million in net proceeds from a new, non-recourse HoldCo debt financing at Agua Caliente. In addition, NRG and NRG Yield have now entered into an agreement to complete the dropdown

of a 31% – of 31%, rather, of NRG stake in Agua Caliente as well as the Utah solar assets acquired late last year as a part of the SunEdison transaction for a total of \$130 million.

Having previously realized \$48 million in financing proceeds from additional debt financing for the Utah solar assets late last year, these 2017 transactions, which I'll review in a greater detail shortly, are expected to result in additional cash proceeds to NRG of over \$250 million, increasing 2017 capital available for allocation.

Next, I'd like to briefly address an element of our 2016 results outside of EBITDA and free cash flow, the non-cash impairment charges of \$1.2 billion incurred for the year. Over the course of 2016, we impaired a number of assets due to changes in the market affecting these specific projects for a total of approximately \$300 million through the third quarter. And in addition, on an annual basis, we tested our long-lived assets and goodwill for potential impairments.

Given a prolonged low commodity price outlook, we adjusted our long-term view of power prices, which resulted in additional non-cash impairment charge of approximately \$900 million, consisting primarily of a write-down of certain fixed assets in California, Texas, Pennsylvania, as well as the remaining goodwill on the Texas assets. This non-cash impairment charge has no impact on EBITDA or free cash flow, and we are reconfirming our guidance for both 2017 adjusted EBITDA and free cash flow for growth.

Turning to slide 12 to review our plans on 2017 NRG-level capital allocation, we expect approximately \$1 billion of capital available for allocation at the NRG level in 2017, which represents excess capital beyond our minimum cash reserve for liquidity that supplements our corporate credit facility.

2017 capital available for allocation consists of the excess cash balance at the NRG level at the end of 2016, supplemented with the closing of the Agua Caliente financing in February, plus the midpoint of our 2017 NRG-level free cash flow before growth guidance as well as the proceeds from the dropdown of the Utah utility solar assets and the 16% interest in Agua Caliente to NRG Yield of approximately \$130 million, and that is expected to close this quarter.

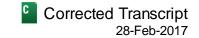
We expect to allocate approximately 70% of NRG-level capital in 2017 towards further debt reduction. This consists of non-discretionary debt amortization of both the NRG term loan and the payments to the counterparty in connection with the Midwest Generation monetization transaction in 2016, which are treated as principal payments from an accounting perspective.

The balance of capital toward debt reduction is discretionary and consists of \$400 million toward the retirement of the remainder of our 2018 maturity, which was previously committed, plus an additional \$200 million towards more corporate debt reduction, which we are announcing today. We will remain flexible as to the tenure of debt to which this additional \$200 million is allocated. However, the most likely scenario is we will deploy this capital toward retiring the remaining balance of our 2021 senior notes.

These notes are currently callable and the call price will step down again in May. Prior to this allocation, we're already on track to achieve our target debt ratio in 2017, which we continue to see as a trough year based on the forward curves. This additional debt reduction not only further strengthens our balance sheet and extends our nearest unsecured maturity to 2022, it also represents an attractive risk-adjusted return.

We plan to hold our dividend at its current rate of \$0.12 per share on annualized basis, representing about 4% of our capital for allocation. And finally, in 2017, we expect approximately \$185 million of growth investments,

Q4 2016 Earnings Call



primarily consisting of our investments at Bacliff, Puente, Carlsbad, and the remaining capital required for the Petra Nova project.

Turning to slide 13, I'd like to provide some further details on the dropdown transactions and related financings, which highlight in particular the rapid return of capital achieved from the SunEdison transaction as Mauricio mentioned earlier. Looking at the left half of the slide, as I mentioned, we have already closed on additional project-level financings for both the Utah solar assets we acquired as a part of the SunEdison utility-scale transaction, as well as our 51% stake in Agua Caliente. When combined with the expected proceeds from the dropdown of our equity stake in Utah as well as a portion of our stake in Agua Caliente, which we expect to close in the current guarter, total proceeds from these transactions to NRG is approximately \$300 million.

In connection with the dropdown transaction, NRG and NRG Yield also agreed to expand the ROFO pipeline to include two additional assets from the SunEdison transaction, enhancing the growth pipeline for Yield and expanding potential capital replenishment for NRG.

Looking at the right half of the slide, and importantly, less than six months after closing the SunEdison utility-scale transaction, NRG is on track to replenish more than 100% of the total purchase price, while retaining a zero-cost option on the balance of that portfolio, which includes both the late-stage pipeline, which is now part of the expanded NRG Yield ROFO, as well as more than 1 gigawatt of additional opportunity.

As shown on the lower right of the slide, the proceeds from the Utah solar debt financing, which closed late last year, and the Utah solar portion of the NRG Yield dropdown, which will close shortly, total \$129 million, exceeding the price paid for the entire SunEdison transaction by \$5 million.

And finally, slide 14 provides an update on corporate credit metrics. Starting with 2016, having repurchased a portion of our 2018 and 2021 notes during the fourth quarter, we've completed our 2016 delevering objectives driving corporate debt to \$7.8 billion. Based on the midpoint 2016 guidance, this implies a corporate debt to corporate EBITDA ratio of just over 4 times.

Turning to 2017 metrics, having now allocated that additional \$200 million in corporate-level debt reduction, total corporate-level debt reduction in 2017 is just over \$600 million, putting us on track to reduce corporate-level debt to \$7.2 billion. When combined with 2017 corporate EBITDA based on the midpoint of our 2017 guidance, this now implies a 2017 debt to EBITDA ratio of 4.13 times.

Importantly, while our target ratio is based on gross corporate debt to EBITDA, for comparative purposes, I've now added the implied net debt to EBITDA ratio at the bottom of this table, using actual corporate-level cash in 2016 and implied year-end 2017 cash by adding the current balance of unallocated 2017 capital with the year-end 2016 balance. These implied net debt ratios are approximately 3.75 times in each of 2016 and 2017.

With that, I'll turn it back to Mauricio for his closing remarks.

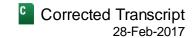
Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Thank you, Kirk. And to close on slide 16, I just like to summarize our main priorities as we move into 2017. You may notice similar themes to last year. This is because our focus on continuous improvement and our strategic objectives remain the same. We will continue to work towards perfecting our integrated platform, seizing market opportunities to grow, and demonstrating leadership in the competitive power sector.



Q4 2016 Earnings Call



And we will enhance our business by remaining focused on operational excellence, reducing costs, strengthening the balance sheet, and repositioning our fleet. We continue with the process of seeking a comprehensive resolution for GenOn, where we are in active dialog with bondholders, and expect to provide more clarity next quarter.

With a solid foundation put in place this year, we can continue on executing our strategy to drive greater shareholder value in the months and years to come.

So with that, operator, we're ready to open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] Our first question is from Stephen Byrd of Morgan Stanley. Your line is open. Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC Hi. Good morning. Mauricio Gutierrez President and Chief Executive Officer, NRG Energy, Inc. Good morning, Stephen. Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC Thanks for the additional disclosure on the cost structure, and congrats for exceeding your cost cutting targets. Just a few questions on your SG&A, for 2017, what is built into overall guidance in terms of your overall SG&A position? Mauricio Gutierrez President and Chief Executive Officer, NRG Energy, Inc. Let me turn it to Kirk, specifically. But for 2017, on our guidance, we included the \$400 million target that we had on our cost reduction initiatives. Is that what you wanted, Stephen, or what level of specificity you need? Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC Well, I was thinking just in terms of the - just the aggregate SG&A amount for the entire company for 2017. How should we be thinking about that aggregate level in 2017? Mauricio Gutierrez President and Chief Executive Officer, NRG Energy, Inc. Well, as we move into 2017, I think when you look at the additional disclosures that we have on the, I believe it

was, slide 6, for 2016, you should expect that we're going to continue to focus on reducing our cost structure overall. And at the very least, when it comes to SG&A, not only we're going to hold the line, but as I mentioned on



Q4 2016 Earnings Call



my prepared remarks, I think it's difficult given the initiative that we're going to go through in the Business Review Committee to put a specific target as we have done in the past. So, I hope that you all indulge us with holding on to, I guess, the direction that we have provided in terms of our new FORNRG program, our new cost initiatives. But there is a lot that we're going to go through in the next couple of months in revising our entire businesses around the company.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Very much understood. Shifting gears over to something you mentioned in your remarks about asset dispositions. You mentioned that there's potential for additional asset dispositions. Without getting too specific, what types of assets should we be thinking about in terms of the most logical candidates for disposition?

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

I mean, I think it's similar to what we did in 2016. I mean, we went through a very thorough review process on assets that were not necessarily core on specific regions, that were single assets that have been underperforming. But the most important thing to me is, if we can actually monetize assets at value. And that's what we're going to be focusing on, on the next steps of asset dispositions. As I've said in the past, we ended up with a portfolio of close to 50,000 megawatts of generation through a number of acquisitions, and it is the time now to be pruning around that portfolio and to recalibrate and resize that portfolio. But we will only do that if we can actually monetize assets at value, like we did last year where we set a target of \$500 million and we came in a little over \$550 million.

So, I think that's how you should be thinking about the asset optimization efforts going into 2017. And of course, I mean, now that we have a new framework around the Business Review Committee, we will have a conversation about single assets. But every part of our business and – evaluate that and make a determination in the next couple of months, which I will be in a position to announce to you later in the year.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Very good. I'll give time for others. Thank you very much.

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Thank you, Stephen.

Operator: Thank you. Our next question is from Julien Dumoulin-Smith of UBS. Your line is open.

Antoine Aurimond

Equity Research Associate, UBS Securities LLC

Hey, guys. This is Antoine actually covering for Julien. How are you?

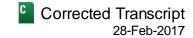
Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Good. Good morning. How are you?



Q4 2016 Earnings Call



Antoine Aurimond

Equity Research Associate, UBS Securities LLC

Good. First, can you expand a little bit on where the incremental \$139 million savings were made, both in terms of O&M versus SG&A and also by business unit?

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Yes. So, the first thing I think it was important to – as we go in through this period of asset rebalancing and asset optimization, I feel it was important to provide you with the total cost reduction on the platform, and not only focusing on one specific category. So, what we attempted to do was provide you with the entire cost platform of the company. Some of the additional cost reductions happened around asset dispositions that we've made. And it is important, as we go in through this asset rebalancing, that we have the transparency to provide you the level that you need to be able to compare where we were before and where we are today.

I will also say that a lot of the over-performance happened just across all the different categories; SG&A, O&M, selling and marketing. So, there is not just one area to pinpoint. But I think it was, as I mentioned, completely across the organization.

Kirkland B. Andrews

Executive Vice President and Chief Financial Officer, NRG Energy, Inc.

And just to add on – it's Kirk. I mean I think this is part of one of the pages that Mauricio spoke to in the total cost comparison versus the baseline, on which those cost targets were set. This is what we achieved in 2016. And I think we had about \$130 million in SG&A and marketing savings, about \$300 million in O&M, and another \$100 million of rounding in development. If you recall, I mean our original target of \$150 million, as we said in the reset, which was a part of that \$400 million, was to come from G&A, marketing and development. So pursuant to what I just described, the combination of those two elements in terms of savings between the baseline and 2016 is more like \$230 million. So, that gives you a directional sense of at least where that component of the overage came from.

Antoine Aurimond

Equity Research Associate, UBS Securities LLC

Got it. Thank you. And on the \$400 million of excluded part of the Generation business, how much of that is non-recurring? And also, how do you think about your initiative of IPP going forward?

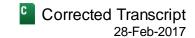
Kirkland B. Andrews

Executive Vice President and Chief Financial Officer, NRG Energy, Inc.

In terms of non-recurring, and I believe you'll find a walk of that in the appendix. Always hate to refer to pages deep in the appendix, but I understand this is an important question. I think it's back on page 35 of the appendix. The only really non-recurring of that deduction is some non-cash gains or losses, and most of those are losses, related to just retirements or write-offs of small assets and inventory and the like.

The bulk of that, excluding the component that we obviously left to the side that's associated with the cost of the South Texas Project, the nuclear asset, and we did that obviously for comparative purposes. We're the only IPP among the three that Mauricio had spoken to that has a nuclear asset. The remainder of that are – it's a list of different things. It's deactivation costs for deactivations that took place, obviously, those megawatts are not included; ARO or asset retirement obligation expense; the purchase accounting effect of lease accounting for

Q4 2016 Earnings Call



some of our acquired assets that are under lease. And the remainder of that is, basically, just lease expense, which is really more of a financing charge that's largely associated with the GenOn and a subset of that is, obviously, the Midwest Gen asset. So, that's non-recurring and more just not what you think about as traditional O&M and SG&A, or maintenance CapEx.

Antoine Aurimond

Equity Research Associate, UBS Securities LLC

Got it. Thank you.

Operator: Thank you. Our next question is from Greg Gordon of Evercore ISI. Your line is open.

Greg Gordon

Analyst, Evercore ISI

Thanks. Just wanted to be – sort of make sure I state the obvious and understand that the guidance you've given for EBITDA and free cash flow this year does not include anything that might result from the strategic review currently underway in terms of incremental cost reductions, asset sales, et cetera?

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Yes, Greg. Good morning and, yes, that is correct. I mean, the guidance does not include anything that will come from the review that we're going to undergo in the next couple of months. That is correct.

Greg Gordon

Analyst, Evercore ISI

Okay. So, it basically assumes the benefits you've achieved through cost cutting are sort of stable, but don't improve materially until you can give us a more detailed update on where you think you can go?

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Yes.

Greg Gordon
Analyst, Evercore ISI

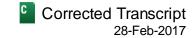
Okay. Great. And then I noticed a couple other small things on page 36, 37, 38 of the release that you both modestly reduced capital expenditures – you came in slightly below your – the last guidance on CapEx for fiscal year 2016 and also modestly reduced the CapEx budget for the next few years. And at the same time, it also looks like the fixed and contracted revenues have improved somewhat substantially, mostly out in 2020. Looks like a cumulative improvement of about \$200 million. Am I observing that correctly? And I know these are not massive changes, but cumulatively, they're significant. Can you walk us through what's improved?

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Yeah. So, I mean, let me just start with the capacity, and part of the change is just the result that we had from the New England capacity auction. So, keep in mind that what we have here on page 36, it really reflects the latest data points that we have on capacity prices and available capacity that we sell under that. And with respect to the other small IE, we can follow up with you, because I think it sounds like you have some specific questions about

Q4 2016 Earnings Call



CapEx and small changes. So, we can follow up with you, Greg, after the call. But if you have something specific, we can certainly address it now.

Greg Gordon
Analyst, Evercore ISI

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No. That's fine. I can ask. I'll follow up later. I wanted to ask Chris a question about Texas, because you did spend some time on it in the presentation. We are expecting, obviously, a new peak in demand this summer. How much incremental supply though are we expecting to come on from incremental wind capacity this summer as well? And is this sort of still the view that under normal weather conditions that we should, would see, all things equal, a significant reduction in renewables contributing to peak demand?

Chris Moser

Senior Vice President, Operations, NRG Energy, Inc.

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So, if I got the CDR right from December of 2016, there's about 18,000 megawatts or so that was on when they published that in the early part of December. By the time we get to the summer of 2017, they're looking at about 20,000 total, give or take. The split is 18,000-ish in the non-coastal and 2,000 and just a little bit over on the coastal side of things. Interestingly, that puts the non-coastal areas at very, very close to the CREZ limit of around 18,000. So that looks relatively full from our perspective. But yeah, I mean, we've got a chart in here. I don't remember what page it is. It's early in the section. What number is that one?

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

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24.

Chris Moser

Д

Senior Vice President, Operations, NRG Energy, Inc.

Yeah, on page 24, where we've laid out some of the past peaks when we hit basically 71.1 last year. The forecast right now unadjusted is 72.9. And just to make it clear, what we could be staring at if August of 2011 comes back down around on the roulette wheel, we took the previous adder for high temperatures and tacked it on to their new one, you're pushing almost 76,000 megawatts, which would be an incredibly impressive kind of a number out there.

Having said that, you've got Wolf Hollow and Colorado Bend coming on this year, two very efficient new CCGTs, which should keep things down a little bit. And then the question that you end up with, which was the \$1 million question last year was, which was how much does the wind blow. The expectation that they built into the CDR is 14% and 58%, depending on whether you're talking about non-coastal or coastal. We obviously got more than that last year on the non-coastal piece, and that remains to be seen.

I will say that, just one last thing, I will say that, I mean, we've seen them raise their load forecast by a couple thousand megawatts for the next couple years, which ate into the reserve margins, CDR over CDR kind of a thing, and that load growth is real. I mean that's part of the chart that we put there on page 24 as well.

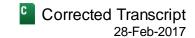
Greg Gordon

Analyst, Evercore ISI



Okay. One final question, and this is a recent data point, so I don't know if you'll have an answer. But we've noticed that in the last week or two, that in some regions where you guys have power plants and some regions where you don't, that we're seeing a significant amount of coal-to-gas switching happening in real time with spot

Q4 2016 Earnings Call

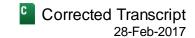


gas prices in the mid to high \$2 range. And that's very different from the switching point we saw last time we were in a bear market for gas, when it was down in the low \$2s. A, is that a correct observation? And B, is that just because Powder River Basin and rail costs are up or are there other factors?

Chris Moser Senior Vice President, Operations, NRG Energy, Inc. I mean, I don't think Powder River Basin coal has moved up all that much over the past time period. The last chart I saw, which was last week, had it ticking down ever so slightly. What I would say on that is you've got the Powder River Basin definitely down a little bit. But in terms of coal-to-gas switching, we haven't seen a huge change in those levels for us. What we have seen is cash gas awfully cheap, because it's going to be about 67 degrees here in Princeton today, and it's still at least by the calendar February. And so, cash gas is awfully cheap. So I think gas has come back on a little bit compared to what we saw in the earlier part of the winter where gas prices were much higher and coal was having stronger runs prior to this, call it, really mild weather. Greg Gordon Analyst, Evercore ISI Okay. Thank you. Chris Moser Senior Vice President, Operations, NRG Energy, Inc. Sure. **Operator:** Thank you. Our next question is from Steve Fleishman of Wolfe Research. Your line is open. Steve Fleishman Analyst, Wolfe Research LLC Yeah. Hi. Good morning. Mauricio Gutierrez President and Chief Executive Officer, NRG Energy, Inc. Good morning, Steve. Steve Fleishman Analyst, Wolfe Research LLC First, one clarification. The guidance for 2017, does that include the \$400 million prior cost target or the \$539 million updated number? Kirkland B. Andrews Executive Vice President and Chief Financial Officer, NRG Energy, Inc. It includes the full impact of the latter, the \$539 million. Steve Fleishman

Analyst, Wolfe Research LLC

Q4 2016 Earnings Call



Okay. And then, the \$539 million, like what, maybe just breaking, and you've kind of answered this and maybe I missed it, but on the slide, there's \$71 million of plants that shut. How much is also related to the kind of like businesses that shut or exited and the like?

Kirkland B. Andrews

Α

Executive Vice President and Chief Financial Officer, NRG Energy, Inc.

Beyond the savings associated with the divesture of plants, there's very little save a small amount of year-over-year change in terms of residential solar overhead. We streamlined that business and obviously changed the business model. But I'd say that number is less than \$50 million in terms of overhead. The bulk of the difference, as you alluded to earlier, is just the changes associated with the plant sales, so Shelby, Seward, Rockford and Aurora.

Steve Fleishman

Analyst, Wolfe Research LLC

Okay. And then, a question on just maybe a little clarification on the Business Review Committee, so I think per the agreement there, like an end date of August 15, is it fair to say you're targeting to complete that well before then?

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.



Yes, Steve, I think that's the goal. And over the next couple of weeks, we're going to meet as a Committee, start looking at every single one of our business with the benefit now of full information, including non-public information and the strategic plan that I laid out to the board last year. And I think that process, we're going to do it on an expedited basis. And one thing that it was important for me to highlight is, the areas where the Business Review Committee is going to focus is very well in line with the priorities that I laid out in 2016 and that we're continuing in 2017. So, now, we're going to have the benefit of working together with the same set of information, so we can make the best evaluation and make recommendations to the board and communicate that to investors later in the year. So, I think that an assumption that we're going to be communicating to the market before August is a fair assumption.

Now, keep in mind that, I want to make sure that as we communicate the decisions to our shareholders and to our investors, we need to make sure that we don't jeopardize the execution of any of those decisions. So, I will make that determination in the next – in the coming weeks and months. But we are on a fast track to make a full evaluation of every single one of our businesses.

Steve Fleishman

Analyst, Wolfe Research LLC

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Okay. Thank you.

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Operator: Thank you. Our last question is from Shahriar Pourreza of Guggenheim Partners. Your line is open.

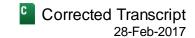
Shahriar Pourreza

Analyst, Guggenheim Securities LLC



Hey, guys. Thanks. Most of my questions were answered. But, Mauricio, let me ask, you guys have – and if your slide is correct on 7 – have a very competitive cost structure sort of to begin with, right. So, I'm kind of curious on

Q4 2016 Earnings Call



what do activists seem like they're going to be able to extrapolate from this business? And maybe, is it more focused on asset sales and monetization versus further cost cut?

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

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Well, two things. One, we understand that many of our investors were working with information from 2015 and partial information throughout the year. So, it is important that everybody recognizes the great efforts that we have gone through and the progress that we've made in terms of streamlining the organization and reducing costs. And this is the first step to improving our disclosures to all of you, so you can actually not only be able to benchmark us with our peers, but also hold us accountable on our efforts going forward. I mean, we may be competitive with other peers as we've put it in this additional disclosure. But certainly, that doesn't take us from our focus on continuing streamlining the organization. And irrespective of asset optimization or asset sales, this is part of who we are and this is part of the refocus of the company over the past 12 months.

Now, as you can appreciate, and I think I have mentioned already that, as we go through this process, we're certainly changing and recalibrating the makeup of our portfolio, and repositioning in a way that becomes more – that is better prepared to take advantage of the market opportunities as they will present themselves. So, I think it's going to be combination of two things. One is continue streamlining the organization; and then two, repositioning the portfolio that will have an impact on our total cost structure.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Got it. That's helpful. And then just real lastly is, you did highlight some of the stuff in your prepared remarks as far as items impacting deregulated power markets. But one of the things that appeared to be missing was sort of some of the state initiatives that are looking to maintain viability of these money-losing nuclear plants, like whether you're looking at Illinois, New York, potentially Connecticut, and obviously potential moves in Pennsylvania. So, I'd be kind of curious on getting your viewpoint there and sort of where you guys sort of fit as additional states may look to come out with their own form of initiatives.

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

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No, that's a great point, and I'm glad that they didn't – it didn't get unnoticed on my remarks. I will tell you that we're completely focused. We're going to be active and we're going to be vocal in defending the integrity of competitive markets. We have done that already in New York and Illinois. And wherever we see that out-of-market payments for uneconomic generation to really subsidize and slow down the most efficient mix of generation and technologies that consumers need and want, we will be there. And like I said, I mean, today New York, Illinois, and wherever that pops, we're going to be a very vocal and active proponent of competitive markets.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

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Terrific. Thanks, guys.

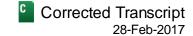
Mauricio Gutierrez

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President and Chief Executive Officer, NRG Energy, Inc.

Thank you.

Q4 2016 Earnings Call



Operator: Thank you. There's no other questions in queue at this time. I'd like to turn it back to Mr. Gutierrez for any closing remarks.

Mauricio Gutierrez

President and Chief Executive Officer, NRG Energy, Inc.

Well, great. Thank you, and thank you for your interest in NRG and spending some time with us this morning, and look forward to talk to you in the next earnings call. Thank you.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.

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