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NRG Energy, Inc. (NRG)

Analyst Day

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, please welcome Kevin Cole, Head of Investor Relations.

Kevin L. Cole

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

Good morning, everybody. Please take your seats. Thank you for joining us today at the New York Stock Exchange for NRG's 2018 Analyst Day. I'm Kevin Cole, Head of Investor Relations. If anybody in the audience needs a presentation, please raise your hand and someone will get you one. And for those folks on the webcast please go to nrg.com, the Investor Relations section for the presentation and the webcast. And the webcast should turn along with the slide today.

Also today we will be making forward-looking comments. So please refer to the Safe Harbor and all GAAP and non-GAAP financial measures within today's presentation. And as you know, here at NRG safety is our number one priority. That's why we have the NYSE fire safety manager here to provide the emergency instructions. Please join us.

Steven Richards

Fire Safety & EAP Director, New York Stock Exchange LLC

Good morning, everyone. My name is Steven Richards. I'm Life Fire Safety Director for The New York Stock Exchange. I'd like to go over our safety procedures for this floor. Before I begin, I would like to make you aware though that, buildings on either side of us are under major construction. So it's not unusual to hear a loud bang or a boom during the day. If there was some sort of an alarm going off on this floor we would make an announcement instructing you what to do. We have our own personnel on the floor that can assist you in any type of evacuation. I'll give you the two evacuation routes for this room. Behind you where you entered is our C staircase. You could take that staircase down. You guys are on the sixth floor, and out these doors over here is our B staircase, that's also available to be used. Again that will take you outside of the building.

We have no drills planned for today. So we're not expecting any alarms. So please enjoy your meeting today. Thank you.

Kevin L. Cole

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

Thank you very much. And now let me tell you about the full schedule that we have today. You hopefully notice the stark contrast from our 2015 Analyst Day where NRG is now offering a vastly simplified and intuitive value proposition. The day will begin with Mauricio Gutierrez, President and CEO, who will provide the strategic outlook.

Mauricio will then be followed by Elizabeth Killinger, Head of Retail, who will provide an overview of the platform's strength and stability including details on achieving the growth and margin enhancements. Following Elizabeth we'll take a short 10-minute break. Then after the break, Rob Gaudette, Head of Business Solutions, will provide insight into how our Business Solutions unit is more than just C&I, and is uniquely positioned to benefit from market trends and NRG's integrated platform.

Rob will then be followed by Chris Moser, Head of Generation, who will provide an overview of the streamlined and strengthened generation strategy, market trends and how our diversified fleet helps de-risk Retail. Following Chris, we'll take another 10-minute break, and then after that Kirk, our CFO, will provide a brief financial update, and then after that everybody's going to retake the stage for a full hour of Q&A.

And so with that it's my pleasure to turn it over to Mauricio Gutierrez, President and CEO.

Operator: Ladies and gentlemen, please welcome Mauricio Gutierrez, President and Chief Executive Officer.

Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

Thank you, Kevin. And good morning, everyone, and thank you for being here. It's great to see so many familiar faces. To all of you who have supported NRG over the years, thank you. And for those of you who are new to the story, welcome. I've been part of NRG now for 15 years, first in the Commercial group then in Operations and for the past two years as CEO of the company.

I've seen the company grow from a regional IPP to one of the largest power generators in the country. And now that we're looking at our next chapter, what I can tell you without any hesitation is that the future has never looked brighter for NRG than it does today.

Last summer, we rolled out our Transformation Plan. I knew back then that we needed to provide you more clarity on our strategic direction and the role we were going to play in the future of the power industry. So now with most of our asset sales already announced, it is fine to have that conversation.

Our last Analyst Day was held back in January of 2015. At that time, our company was, well, a little bit more complex. As you can see on slide 2, we had many assets and many businesses. This resulted in a complicated story and a very complex capital structure. I listened to many of you express frustration as to how much time we were spending of being [indiscernible] (00:05:27) our core competencies, and your desire to see a simplified NRG. I made a commitment back then to all of you that simplification and focusing on our strengths were going to be a priority. Today, NRG is not only much simpler and more focused, but we have transformed our company. This is true not only in the way we're organized, and work internally, but it's also in the way that is perceived externally.

One thing I will promise you today is that, this time around, it won't take two days to tell our value proposition. You should be able to get it much quicker than that. I also want to address, take this opportunity to address some of the questions that you have asked over the past few months. What is the long-term strategy of the company? How confident are we on achieving our margin enhancement targets and our Transformation Plan goals? How are we going to use our excess cash? So over the next few hours, we will cover all of these questions, starting with a strategic review of our business, our execution plan and its financial impact in the company.

Let me start with today's key takeaways on slides 3. First, our business will focus on our core competencies of generating electricity and selling it to our Retail customers. Only now, our strategy takes a more customer-driven approach. Second, with the rebalancing of our portfolio, we have increased the stability of our cash flows and minimize the impact of natural gas as the main value driver for our business. And third, we are absolutely committed to allocating our excess cash with complete discipline, and by using a set of clear and transparent principles.

Our core business model has actually remained very consistent. And as you can see, it's quite simple and compelling. We were always a business with two principal strengths: Generation and Retail. We have the best portfolio of retail brands led by Reliant and Green Mountain Energy, supported by a diverse generation portfolio, and enhanced by our commercial and risk management capabilities, which I must say are second to none in the industry. This creates a unique and valuable platform that we can enhance even more by realigning our business and operations to be more customer-driven. This revamped platform will create a strong and compelling financial profile.

Our business will generate robust and visible cash flows, now with much higher efficiency than in the past. Our balance sheet will be strong and consistent with our business, our exposure to natural gas will be reduced significantly by rightsizing our portfolio and by hedging, and we are going to generate significant cash in excess of the financial needs of the company.

So, before I talk about the future, I just want to take a moment and review the past to understand how we got here. There is no better place to start a discussion about the merchant power industry, and the price of natural gas. On slide 6, you can see a chart with the price of natural gas or better say, the 12-month forward price of natural gas for each individual there.

This is important because companies in our industry, they don't make decisions based on the prices today, they make decisions based on the expected price in the future. And to understand what companies did, well we just need to follow the money. So we have also overlaid new plants or additions and planned retirements.

You can clearly see there are two distinct periods in the merchant power industry since 2000. So for those of you that have been in the industry during this time, you know what a roller coaster it has been. The first period was defined by rising natural gas prices. We saw an oversupply of efficient gas units entering the market, resulting from the over excitement of deregulation. If your recall during this time, the greatest value was in power plants that burn anything, but natural gas, particularly coal and nuclear. You can actually say that these were the golden years for IPP industry.

Then two things happened; shale gas revolution, and the financial crisis of 2008. This actually starts the second period, defined now by falling gas prices. Generators move into the retail space to hedge their power plants. We saw the rise of renewables and the retirement of old and inefficient plants, mainly coal and nuclear. The value in this period was primarily in retail companies, and in taking cost out of the system through consolidation.

So, as we look ahead, it seems to us that we are beginning a new cycle, one that is defined by cheap natural gas, more renewables and the one that I find more exciting and that is consumer engagement. This next period in our industry will be driven as much by consumers, as it will be by generating technology.

So, I think it's worth taking a closer look at these trends on the slide 7. I think it is important to put that in context of the entire value chain of the power industry. So starting with Generation, we're actually seeing some very positive developments in the near-term, driven primarily by planned retirements; markets are actually getting tighter like we're seeing in Texas.

We are also seeing the potential for market reforms to keep up with the new demands of the electric grid, primarily resilience. Longer-term, it's a little bit more uncertain with low commodity prices, more renewables and other disruptive technologies like battery storage.

On the Retail side, the trends are very attractive. And if you think about it, more actionable for our business, given the expertise and the distinct advantage we already have in this space. Thanks to the convergence of digital technologies and connectivity. Electricity users can now choose the source of their power, and how and when to use it. More than ever, they are in the driver's seat. We are only beginning to see the impact of consumers becoming increasingly engaged with [ph] energy (00:14:49). I believe, we're seeing the beginning of electricity as a consumer product.

This is an opportunity for us to also learn from other industries, where technological disruptions, driven by consumer demand challenge the status quo. You only have to look at the hotel or taxi industry as two clear examples of well-established business models that experienced a complete overhaul as a result of technology and consumer demand. This consumer engagement represents an emerging and significant opportunity for us. We are leveraging our expertise in both managing Generation and serving customers to refocus our business and better align with customer demand.

So to put it simple, we're putting our business on the right side of the market [indiscernible] (00:16:02). Even our own transformation is in direct response to these trends. On slide 8, you can see that we have already taken significant steps to balance our portfolio. We have reduced our generation capacity by more than half with the separation of GenOn and the sale of NRG Yield. At the same time, our Retail business has kept growing steadily. So when you combine these two actions, we end up with a stronger and more balanced portfolio.

These fundamental changes were necessary to even start thinking about how to redefine our business, and move to the next phase of our evolution. So as we are – thought about the winning platform for the next phase, we first look at the specific characteristics that will not only create value in the short-term, but also position us for sustainable and long-term success. There are two creative characteristics, where stability of earnings and a business that could capitalize on future market opportunities.

On slide 9, we compare all the different business models in the industry through the lens of these two attributes; earnings stability and market attractiveness. Earnings stability reflects the ability to manage the impact of volatile commodity prices. And market attractiveness reflects where trends are more favorable. As you can see, no model today can achieve both a high-level of earnings stability and being positioned to benefit from the most attractive market opportunities.

So let me elaborate a little more. A pure IPP which is in the lower left quadrant is exposed to both commodity prices, which makes their earnings more volatile, and to challenging trends that we're seeing in the Generation business. Above these, you have a pure retailer. They are well-positioned from a market attractiveness standpoint to capitalize in this increasing consumer engagement. But they are exposed to sudden changes in commodity prices.

Most public IPPs have actually moved to the center. You know some of you have heard the term gentailer, I guess, which comes from the generator and retailer. I mean, these are IPPs that acquire a retail business as a hedge to their generation fleet. By the way, this is who we were after the acquisition of Reliant. These are large generation portfolios with a Retail business on the side. Let me be clear, every other integrated merchant company sits here, an oversize generation portfolio with a smaller Retail business. NRG has now broken away from the center, and started moving to the upper-right quadrant after significantly rebalancing of our portfolio over the past two years.

We now have a model that is no longer generation-driven, but customer driven. We call that a customer-driven integrated power model. This model will take us away from historical feast-or-famine earnings of our sector and enable us to benefit from both earnings stability and secular trends. So now let me walk you through how our business stacks up with these two attributes, today.

Starting on slide 10, the stability of our improved platform is achieved in two ways. First, a stable Retail business, which this year will represent around 60% of our earnings. You can see on the upper left chart how stable our Retail margins have been over the past 7 years. I have been asked about our margin stability since we acquired Reliant back in 2009. I hope that after all these years, close to 8 years, we have demonstrated to you on there, a number of market conditions, we can generate stable Retail margins. This is not by accident or coincidence.

We are the leader in this space because of our multi-brand and multi-channel strategy. These coupled with our commercial – the strength of our commercial team provides the stability that we deliver year-after-year. And Elizabeth will share additional details, but I hope that you all can appreciate the robustness and resiliency of our Retail business.

Second, we have a Generation business that is well-positioned for market recovery. Unlike our Retail business, our Generation business has been impacted by low gas and power prices. Our best strategy to mitigate this impact has been to right-size the portfolio, to hedge our generation and to have plants in areas where markets are more attractive.

For example, as you can see in the bottom of the chart, after years of anemic prices in Texas, where we have most of our generation with exposure to energy prices, we are finally seeing signs of market recovery. Now, when you combine these two businesses, you get good stability and exposure to attractive market.

So let me explain a little more. On the right side of the page, we have plotted for illustrative purposes, how our gross margin changes on the different power prices. As you can see, on our Retail earnings on the light blue line, they're fairly stable when the prices go up or down, especially one year out. But in the front year, we may see some margin compression if prices go up or margin expansion if prices go down. But one year out, where all retailers are exposed to the same commodity price, our margins are stable.

Our Generation business on the other side is more directly correlated to power prices as you can see on the dark blue line. Our margins increased with rising gas prices and decrease with falling prices. But if you see, it doesn't go down all the way to zero, and that's because our Generation assets are needed today. If we cannot get our revenues from the market, then we will get it from reliability payments, but we will get them, because they are needed.

Now, you can see where we are today for the combined portfolio on the pink line. I mean, given where prices are today, our margins have very little downside and asymmetric upside. And this profile only improves as the portfolio gets better balanced.

So now with respect to market attractiveness on slide 11, we're seeing very compelling opportunities within our Retail business, driven by our consumer engagement and smart devices, the states are actually looking at ways to open their markets to competition and provide better energy choices for their residents.

In Texas, we are the leading retail provider with a commanding 30% market share. But if you look at all competitive retail markets, we represent only a 6% share, as you can see on the top-left chart. We have a significant opportunity to grow. So you think for every 1% increase in market share, we will generate $70 million in new earnings for Retail business per year. So our focus going forward is on maintaining our leadership position in Texas since it's the only market that is growing, and therefore we will grow with it.

And in the East, our focus is on gaining market share from competitors and utilities, since only a fraction have chosen a competitive provider. We're going to continue to push for better, and healthier competitive market, particularly in the East. Our Generation business is also well-positioned to benefit from some of the positive trends we're seeing in our core markets, as you can see on the right-hand-side of the page.

As I mentioned to you in ERCOT and after many years of oversupply and low power prices, the market is finally correcting itself, largely driven by asset retirements and strong loan growth. You can see that on the lower right chart with reserve margins tightening significantly, which means higher probability of scarcity pricing.

In the Northeast, we expect to see reforms in energy and capacity markets. And this is to make sure that generators are fairly compensated for all services that they provide to the grid. Now, remember that most of our fleet in the Northeast is near [ph] low centers (00:28:50), which allows us to receive favorable energy, and capacity prices. Chris will discuss this in more detail later this morning. But as you can see, our Generation portfolio is well-positioned to benefit from these changes.

So let me summarize. Our strategic direction, leverages our core competencies, and it is consistent with our objectives for greater stability and access to attractive markets.

Now, let's turn to how we're executing on our goals and our future vision. It's been a little more than two years since I became CEO. It was clear to me back then that our story was complex, and we were trying to be too many things to too many people. These have burdened the way we work internally, our cost structure and our external perception.

We needed to fix this. Our roadmap to transform the company has three distinct phases, as you can see on slide 13. First, we needed to stabilize the company, then right-size it and finally redefine it for long-term success. Two of these, you are already familiar with. And the third is the vision that I'm outlining today for you.

So, let's start with Phase 1. In my first earnings call as CEO, I laid out the priorities for the company with the objectives to stabilize the company and simplify our value proposition. We began to streamline the business by selling non-core and underperforming businesses like Home Solar, our charging station network eVgo and some non-core power plants.

We started our cost reduction program. Taking out over $0.5 billion in costs, and shifted our attention to fixing our balance sheet by reducing our debt by $1 billion. And these efforts simplified and refocused the company on our core strengths of Generation and Retail.

Phase 2 started with the announcement of the Transformation Plan last summer. A three part, three-year plan that accelerated our transition to a more balanced and robust company with significant shareholder value creation. This includes over $1 billion in cost savings and margin enhancement targets, over $3 billion in asset sales, including the sale of our interest in NRG Yield, and our Renewables business, and further strengthening our balance sheet with explicit and transparent capital allocation principles. This plan was also enhanced by the resolution of GenOn.

Execution of our Transformation Plan is our number one priority, today. But we have to start thinking about Phase 3. How to reposition and redefine the company for long-term success? What are the changes that we need to make for to our portfolio to become a more customer-driven power company.

We know that after the asset sales, we will still have some gaps, and we need to address them. Chris will talk about that and provide some more color. What I can tell you now is that, we're gearing up to reposition the company. But the full implementation of this next phase can only happen with the successful execution of our Transformation Plan.

So let me give you an update on where we are on our plan, on slide 14. As you can see, we are on track on all our major initiatives. We have announced over 90% of our targeted asset sales, with the remaining to be announced by early next year. All announced sales are moving through the approval process as planned, and we expect to close by the second half of the year.

On our balance sheet efforts, and as Kirk discussed on our last earnings call, we are on track to achieve our credit ratio of 3 times net debt to EBITDA by the end of the year. On cost savings and margin enhancement, I will be providing more details on the next slides. But I am confident on achieving both of these targets. And I recognize that it's been over eight months since we introduced our plan to all of you. So I want to take a moment and remind everyone about the governance, an [ph] oversight (00:35:29) framework we have put in place. We have our dedicated team to track and implement the plan. We report our progress on a monthly basis to the Finance and Risk Management Committee of the board, and to the full board every quarter. And we provide quarterly update to you through our scorecard.

Putting in place the proper framework to facilitate both accountability and transparency is a critical part of the plan. We should provide all of you an added source of confidence that our targets are both realistic and achievable that our reporting is well-documented and that everyone throughout the organization, including our board has a role to play.

So let me start with our cost savings on slide 15. We actually had a pretty good start in 2017. We realized $150 million on cost savings. We were able to pull forward some of our 2018 initiatives, and that really helped us exceed our target.

Looking forward, we have a line of sight into the specific sources of savings. You can see a breakout by business unit on the right-hand-side of the slide. But I want to give you some data points on our progress. Over the past 12 months we have reduced our workforce by almost 20%, which includes all related workforce expenses.

We have also increased our automation, reduced external consulting and IT spend. I mean, these are just a few areas of focus that keep us on track with our targets. And as we start to close on the transactions later in the year, we will further reduce cost associated with asset sales.

On the working capital and maintenance CapEx, we have identified all the savings, and we remain on track. So I know that many of you have asked for more detail about our margin enhancement program. Both Elizabeth and Rob, will provide you a little – more details in their respective sessions. But I have to say what they are not going to provide to you is their secret sauce on how we're going to get it, because I know that every single one of our competitors is listening to this call. So I think it's fair to start by just putting a – just a general framework around these margin enhancement effort on the slide 16.

Our margin enhancement goal is to increase EBITDA by $215 million by 2020. You can actually see the breakout by segments on the left-hand chart. So, you can tell the lion's share will come from our Retail Mass segment. Our goals are back-loaded, meaning our plan is to make investments in 2018, and then to see the benefits in 2019 and 2020.

As part of the Transformation Plan, we set aside $75 million of cost to achieve to invest in our business for this purpose. These investments include initiatives such as improving our IT platform, our customer experience and adding new products and sales channels.

So let me focus for a moment on our Retail Mass business, that is homes and the small businesses. Our margin enhancement will come primarily from two areas; value expansion and customer growth. Value expansion, we'll look at improving our platform, increasing retention and adding products to our current offering. On the customer growth side, we will focus on our sales channels and the digital experience, all of the efforts supported by improved data analytics and better harnessing information. Again, you will hear more details from Elizabeth and Rob later.

Given the good progress that we're making on our Transformation Plan, we now have the opportunity to evaluate our portfolio, and identify ways to improve the stability of our earnings and the access to more attractive market. So as we transition to a more customer-focused business, we need to start thinking about NRG, not in terms of megawatts we own, but in terms of customers we serve.

So, as part of this evaluation, we identify areas where we need to further rebalance our portfolio. Even after the separation of GenOn and asset sales, we have more generation than retail load in the Northeast. So we have two options. We either decrease our generation or increase our retail presence. So today, we are announcing the acquisition of a small retail company to help us rebalance our portfolio in the East, as you can see on slide 17.

XOOM Energy is a retail provider of gas and electricity mainly in the Northeast. The purchase price is $210 million including working capital and $6 million of transaction cost. It has about 300,000 customers' equivalent and generates $45 million of EBITDA per year. This transaction significantly exceeds our financial hurdle rates, it is accretive with an effective acquisition multiple of 4.5 times, and it is consistent with our portfolio rebalancing objectives.

So to summarize our next phase on slide 18, we need to continue rebalancing our portfolio to better match Generation and Retail. We need to change the way we are organized to better align with our customers and achieve further integration between Generation, Retail, and Corporate functions. We need to continue maintaining a robust balance sheet appropriate to our business and a low cost platform.

And finally, we need to do all of these while maintaining a strong commitment to sustainability. And for us at NRG, sustainability is a philosophy that is fully integrated in all parts of our business, our employees, our suppliers and particularly our customers. It is the glue that keeps all internal and external stakeholders working together towards a common goal with purpose.

So, let me move to the last part of my presentation. And I want to cover the financial impact of our plan starting on slide 20. We are providing you pro forma free cash flow before growth based on 2018 guidance and our Transformation Plan targets. As you can see, we are improving our recurring free cash flow to over $1.3 billion by 2020. And beyond 2020, we have additional potential growth. Our Retail business is expected to continue growing and gaining market share. Business solutions is positioned to capitalize on distributed generation opportunities. And our Generation business can benefit from positive market changes in ERCOT and PJM.

So when you look at the cumulative cash over the next five years on slide 21, you can see we are a cash flow machine. We are generating cash significantly in excess of the financial needs of our business. Kirk will provide more detail, but the bottom line is this, our business is positioned to benefit from stable and predictable cash flows that over the next five years can amount to $8 billion in excess cash. And that is without accounting the cash assigned to deleveraging and the additional cash flow opportunities beyond 2020.

So I know that you've all been waiting and I know the question in everybody's minds. So what are we planning to do with that cash? So let me turn to slide 22 to address this question. Our capital allocation plan, first and foremost supports running our business at the highest levels of operational and safety performance.

Second, we need to focus on executing our Transformation Plan to create this excess cash. I mean, we're making good progress, but we cannot lose focus on execution. And by now, all of you should know our capital allocation principles. We will always first derive direct our capital towards maintaining a strong balance sheet. Today, that means a target credit ratio of 3 times net debt-to-EBITDA. This target reflects our more stables stable earnings profile and our ability to convert cash in a more efficient way.

Once we achieve this target, then we can reevaluate and see if it remains appropriate. Right now we are comfortable with it. So since we have now good line of sight to achieving our credit ratio by the end of the year, we have to turn our attention to reinvesting in the business at or above our target hurdle rates or returning capital to shareholders.

This is your capital, and I can tell you that the worst possible place for our excess cash is in our balance sheet earning zero. We either deployed in good, sound investments that are consistent with our strategy or we will give it back to you. A few weeks ago we announced a $1 billion dollar share buyback given the announcement of our asset sales.

Looking forward and as cash gets realized, we will continue monitoring for growth opportunities to invest our capital or return it to our shareholders. But let me be clear, if we invest, the opportunities need to be compelling on both an absolute and on a relative basis compared to our stock price.

I am also open to evaluating other forms of returning cash to shareholders. I know some of you have asked me about our dividend policy, and whether a large dividend policy is required in our business. From my perspective, a dividend is a good way to return capital to shareholders, and it also shows confidence in cash flow stability. But, in the near-term, I believe share buybacks are more effective in creating shareholder value, given the undervaluation of our company. Once we execute on our Transformation Plan and our stock reflects the fundamental value of our company, then we can revisit our dividend policy. Until then, we're going to focus on share buybacks as a way to return capital.

So, [indiscernible] (00:50:43), I want to put in perspective the cash potential of our company for you. On the right side of the slide, we are illustrating our two options of investing or buying back our stock. I mean, this is not meant to say that we have to choose one over the other. I mean, in reality it's going to be a combination of the two. But this illustration really puts in perspective the size of our excess cash. If we were to invest all our excess cash in attractive opportunities with 12% to 15% return, we would more than double our recurring free cash flow by 2022 – that is 2022. So, when you think about the earnings power of the company in the future, you have to keep in mind our ability to find attractive opportunities, like the one we announced today with XOOM.

The second scenario is around share buybacks, and if we were able to buyback our stock at the current share price, these would represent close to 80% of our market cap today, 80% in the next five years. I don't believe there are many businesses with the financial flexibility that we have and we are absolutely committed to be excellent stores of your capital.

So, let me close on slide 23 by telling you why the future of NRG has never been brighter than it is today. We have a business model that is built from our core strengths of Generation and Retail, but now focus around the customer. We have a stable business that will produce $1.3 billion of recurring free cash flow per year. We will generate $8 billion of excess cash, equivalent to 80% of our current market cap, over the next five years. We will have a strong balance sheet that is well matched to the risk profile of our company, and the most important element of all, we have the people and the mindset to get it done.

So, thank you for your attention and your interest in NRG.

Operator: Ladies and gentlemen, please welcome Elizabeth Killinger, Head of Retail.

Elizabeth R. Killinger

Executive Vice President, NRG Retail, NRG Energy, Inc.

Good morning. Give you guys a second to settle for just a moment. I'm Elizabeth Killinger, for those of you I haven't met, and I've been with the company since 2009, when I joined with the Reliant acquisition where I was running back-office operations. In 2012 I was asked to serve as President of Reliant and in the first half of 2014 I started running the Mass Retail business in its entirety.

Today there are three things you'll hear me cover during my presentation. First, I'll cover the highlights of our strong foundation, which underpins our Mass Retail business. Second, I'll give you a bit of insight into why we're excited about the growth potential and share what drives the stability of our margins. And finally, I'll share the roadmap for the mass market portion of NRG's mass – margin enhancement plan.

But before we start, I recognize a few faces and I wanted to check on something. If you raise your hand if you attended NRG's last Analyst Day in January of 2015. So, third to half of the crowd. Okay, now raise your hand if you remember a discussion about the Retail business then. Anybody remember that? Okay, two. All right, it's okay. So, for those of you who weren't there or don't recall, back then, I introduced the concept that NRG Retail was striving to become a $1 billion business. Interesting that no one recalls that.

Want to pull up the next slide. So, this is what we laid out for you, back then. In blue, you can see our actuals through 2017 and the current forecast for the future. And you'll notice that we beat all of our expectations back then. So, let that settle for a minute. We beat all of our expectations that we laid out for you back in January of 2015, not long after I took the helm. Not by a little, but by more than 20% every single year. With the additional momentum of our transformation program, we've raised our expectations for the future, and are closing in on that billion-dollar goal three years sooner than we projected at last Analyst Day. Let's start by reviewing the basics of our business.

We're a national competitive retail company. We serve almost 3 million customers, and more than 42 terawatt hours of energy every year. As you can see in blue on slide 5, we delivered a 10% compound annual growth rate on earnings over the past five years. This consistent performance is delivered by the best team in the business, some of whom have been with the company for decades, and others who just started, but together that group of people bring fresh and innovative perspectives and that's enables us to achieve the growth that we have. This diverse group of people delivers on continuous improvements fearlessly, those show-up in both profitability and in customer count.

In the pink chart on slide 5, you can see that the same time earnings have grown, our customer base has consistently increased. We ended the year of 2017 with the highest customer count total ever with nearly 2.9 million mass customers.

Now, if we turn to slide 6, as Mauricio mentioned, we have consumer trends that are driving the industry and will shape the future of our Mass business. Like other consumer-facing businesses, our customers are increasingly expecting real-time personalized service, and they want their provider to stand for something. Now that's something varies, right, from one customer to the next they may want something totally different, but they want the company they work with to be principle-driven and exhibit their values.

Some customers prefer a better known provider, the brand name, if you will. Some seek out sustainability and many more want a local hometown presence, they know somebody down the street that they can trust. They have at their disposal rapidly advancing digital tools to manage home and energy products right now at their fingertips. Many of them are gaining access to new ways to source or use energy, generating energy in small portions or some large that could be solar, could be storing that power in a battery, or could be electrical vehicles.

Our markets typically have 30- to 50-plus competitors at any given time, and even though there are often consolidations, they reduced the number of players, new ones pop up every year. And as consumer markets and technologies advance, that opens the field for new competitors to consider entering the market. This keeps us alert, fiercely protective and innovative to maintain our business. And as our results prove, as I talked to you a minute ago, we're succeeding.

Now, as you can see on slide 7, we address these trends head-on with the way we go to market. We anticipate what customers want and establish a prudent way to provide it. At NRG, as Mauricio mentioned, Match Retail includes both residential customers, as well as mom-and-pop small businesses whose purchasing behavior and service looks a lot like a residential customer. We go to market with several core brands, each has a distinct appeal and a purpose in our portfolio.

Customers seeking an award-winning customer experience and innovative solutions, they're attracted to Reliant in Texas and NRG in the East. Green Mountain Energy is the clear choice for customers with a sustainability mindset and who want to change the way power is made. And [ph] CRO (01:00:16) appeals to those consumer – coupon moms and frugal dads like maybe some of you in the field, who are focused on simple service and low prices, and that's it.

We offer customers a range of products to power and protect their lives and businesses. At the forefront, of course, is electricity, that's where our focus is and that's where 98% of our earnings come from, but we also have found that we can provide customers with complementary products and services, primarily natural gas in the East and home security in Texas, and these add on products, they can enhance value for both the customer and for NRG because they strengthen and lengthen our relationship, with retention rates typically improving by 10%, but for some of those products it's as high as 50%. All of the alternative products we offer are in service of strengthening our electricity bond, which is the core of our relationship with the customer.

Turning to slide 8, as Mauricio mentioned earlier, and you can see here, we announced today that we're adding a new brand to our portfolio, it's called XOOM, and it appeals to referral shoppers. People who want to buy energy from a friend or family member that they trust. Prior to our acquisition of XOOM, this was a customer segment we were not targeting, and now we're looking forward to the contributions this segment can play in our go-forward growth strategy, much like the other businesses we've acquired in Retail in the past have done.

In addition, XOOM materially increases our East footprint, including our natural gas product lines and gives us the opportunity to pursue a number of other markets if we choose to. I'm pleased also that it's immediately accretive and incremental to our transformation program.

So, turning to slide 9, the success of all of our brands is driven by best-in-class customer experience. You can see a few highlights here that demonstrate that we walk the walk. I'm very proud of our team's performance and the customer-first culture that we cultivate at NRG. The team has done an amazing job of providing customers with the experience that they want. As an example, Reliant has a 4.5 star Google rating, has the highest rating with the better business bureau, and has been featured multiple times as a case study in best-in-class customer service, in book and with the Harvard Business Review. And just last week, we had great news, we were notified that Reliant took the coveted number one spot for overall customer experience in the ForeSee 2018 Utilities Customer Experience Report.

Green Mountain also has a long history of winning customer satisfaction awards, including prestigious J.D. Power Award several years and was recognized by Cogent Energy Report as the Most Trusted Brand. Our capabilities in caring for our customers is a clear advantage in the marketplace and it has contributed to NRG's superior consistent customer and earnings growth, especially when you compare that to our largest competitors.

Moving to slide 10, I'm also very proud about how actively engaged we are in our communities. This has been a long tradition for our company and one that shined brightly most recently with the hurricanes and floodings. During Hurricane Harvey, our people traveled from across the country to assist Texans devastated by the flooding, they provided portable power and light to those in need. We were also the first retailer to make a significant customer accommodation and have been assisting with the ongoing recovery efforts that continue actually to this day. In the markets where we operate, we're the [ph] hands and the feet (01:04:27) that make a difference in the communities where we live and work, and it creates value for both NRG and for our communities as well.

Moving to slide 11, [ph] I've talked through NRG is (01:04:41) as a retailer, now let's look at the national competitive landscape for residential providers. NRG has the largest competitive residential electricity portfolio in North America. And with the addition of XOOM, our portfolio is even larger. We've achieved this number one position by meeting customers where they are with compelling multi-brand offers, delivering top-notch customer experience and by being a leader in the communities that we serve.

So, transitioning to slide 12, let's talk about our growth potential and stable margins. Looking at slide 13 now, what makes a market attractive? Well, fundamentally, there needs to be an opportunity for growth. In our view, that growth can come in [ph] one of two (01:05:33) forms, ideally from both. First, growth can come from overall market growth. This is the simplest way, just grow along with the market. With our superior brand, products and sales channels, we expect to grow by at least our fair share when this occurs.

The second way we can grow is when there is a significant opportunity for share expansion. This is especially present in the East markets where many customers are not participating in the market or our competitors offer very little in the way of differentiation.

Underpinning the market opportunity, there has to be a healthy regulatory landscape. We consistently and eagerly work with regulators and legislators to create vibrant competitive markets where we operate. The great news for us is that we have the opportunity to advance our business from both market share growth and market growth – market growth and share growth.

Let's move on to slide 14, and our position in our largest market, which is Texas. Our current market provides a great playing field for competitors to bring value to consumers. And we're the largest retail company with 30% market share in this state. The three cornerstones of how the Texas market operates in Retail are as follows: First, in territories where there is a competitive market, 100% of customers are with the retail electric provider, there's no default service provider. Second, [indiscernible] (01:07:17) relationship with the customer and bring innovative solutions to them directly at enrollment through customer service, through billing and collections. All of those functions in Texas are handled by retailers. And third, the regulated utilities are focused on managing transmission and distribution and they execute requests made by retailers for disconnect and reconnect, quite a different market.

I mentioned that NRG is the clear leader in Texas with 30% market share across our brands. This is driven by the fact that we are the only one of the largest three competitors in Texas to show consistent growth. We've demonstrated consistent growth in customers for six years.

Now, let me clarify [ph] misconception (01:08:07). Winning in Texas is not just a matter of being an incumbent and holding on to legacy customers. That's simply not the case. According to ERCOT statistics, over 93% of all residential customers have changed or selected a supplier. And, of course, 100% of our customers outside of the Houston area and outside of Texas have made an active switch to a new supplier.

And the even better news for Texas, moving on to slide 15, is that electric load in Texas is projected to grow. The key reasons for that, we have growth in both economic development and we have population growth. On the left of slide 15 is ERCOT's Long-Term Energy Forecast published a few months ago. A 2.3% annual growth rate through 2027 is projected. While this forecast is for all loads, including mass market as well as commercial and industrial, it's consistent with population growth trends and our view for loads in the residential and small commercial space.

If you simply assume that NRG maintains that 30% market share as that growth unfolds, that would provide about $50 million in incremental EBITDA annually by 2020, in excess of $150 million annually by 2027. But as we've done in the last two years, we can actually improve share in Texas. Improving share in Texas by 1% is a $20 million-plus annual EBITDA opportunity.

Now holding our leadership position is certainly isn't free or easy, but these market trends in Texas help us meet our Transformation Plan aspirations and are not seen as incremental. A healthy and growing Texas market gives us confidence in the strong foundation of our business and provides a tailwind to meet our goals.

Now switching gears to the East market on slide 16. One of the key differences between the Texas market and those in the East is the role of incumbent utilities, as you all are well aware. In the East, when the markets opened, customers were not transitioned to competitive providers, nor did the market structures motivate customers to make a choice to a new provider. This slowed competition, and as a result, only about a third of eligible customers have selected a provider that is compared to that 93% I mentioned in Texas.

Despite these headwinds, our portfolio in the East has grown remarkably over the last three years, and we do well among customers who do make a choice to switch providers. While we are a leading provider wherever we offer service in the East, we are the clear leader in Pennsylvania, and this is by design. Our strategy in the East is to focus our resources on the most attractive markets and working with the others in a more opportunistic basis.

Back in 2013, we were ranked number four in size in Pennsylvania. In 2014 and 2015, we prioritized Pennsylvania over the other markets, and deployed our regional multi-brand strategy with force. We tested our offers, did trials on how we go to market and invested in growth. This focused effort enabled us to move from number four to the number one competitive retailer in Pennsylvania quickly.

Another distinction in that East is, there are really two types of customers. Those loyal customers who chose a provider, and then you have municipal aggregation customers who didn't really have a choice, they were assigned the providers that they're with. Municipal aggregation customers live in a particular community and are acquired as a block really more like a B2B transaction.

To a large degree it's really still a regulated product by another name. So, when you compare NRG Retail to our competitors, I'd encourage you to give thought about the quality of the customer base. Muni adds a great way to improve certain metrics, such as residential customer equivalents, which are really just another measure of volume. Our cost to serve for RCE, they don't deliver the same value to shareholders. Our market in the East represents significant untapped potential, with 31 million customers eligible to choose and over 21 million who haven't made the choice, the opportunity for NRG is clear, just like the opportunity we found in Pennsylvania. Our plan is to grow market share in the East with a focus on investing in markets where expansions will deliver the highest returns and, most importantly, profitable growth, like that we have achieved over the last few years.

Now, turning to slide 17, I wanted to spend a moment just briefly on the potential retail energy competition – the potential for retail energy competition to spread to other new markets. The states that are highlighted here have activities in some form or fashion underway to introduce choice and they have the opportunity to deploy a healthy market. We're eagerly participating and helping where we can to give input, and when those markets open, with a healthy competitive market, this presents significant opportunity for us to grow beyond 2021.

The EBITDA opportunities you can see here are based on just a generic assumption that NRG can win that 5% of market share of retail load. If [ph] you (01:14:10) reference our experience in Pennsylvania, we feel like that's a good estimate. You also may notice a little dot upper in the Panhandle of Texas, not all of Texas is currently competitive. It may be shocking, but San Antonio, Austin, and the City of Lubbock in the Texas Panhandle are not enjoying the benefits of competition. However, I'm excited to share that Texans and their leaders in Lubbock have realized that a competitive market can provide great benefits to communities and to customers. In Lubbock, they've begun the process to join ERCOT, and just right now, this first quarter of the year, they're working to bring choice to their city residents. Now again, it'll be in the 2021 type timeframe that they join, but we're excited about the opportunity to introduce NRG, the brands that we offer and the products that we deliver to Lubbock and other markets that make the move to retail choice.

We further believe that other states and municipalities will begin to recognize that counting on a monopoly structure is not a winning strategy to lead the way toward a resilient effective energy future. Instead, free markets will better attract the technology, products and services that consumers expect for energy, just like they do for every other part of their lives.

Now, moving to stable margins, let's look at slide 18. Let's talk about the stable margins that we've delivered since 2011 across a variety of commodity price environments. Our delivery of consistent margins is rooted in two key sets of advantages that we enjoy. The differentiation we bring to the market as a high performing retailer and the platform advantage we enjoy as part of NRG. So, let's talk about each of these a little bit more.

Moving to slide 19, differentiation starts with the brands and products we offer. Our multi-brand strategy powers our margins by providing a variety of innovative products to customers via unique brands and channels. These [ph] are the (01:16:35)products customers can get from all 50-plus providers in the market. They're innovative products we design to appeal to specific customer segments. This is because as we drive meaningful differentiation, we see the benefits in retention and in margins. The typical differentiated product that we offer delivers a 20% or higher improvement in margins. Another way we offer a differentiated experience is with the services we provide. Our app and web experience, as well as our billing-related services lead the market.

One of our most popular offerings is the Weekly Summary Email. We pioneered this in Texas several years ago, using our smart meter data to deliver insights to a customer's email box each week. In a customer survey we did recently, one loyal customer said, I'm absolutely loving how Reliant Energy keeps me informed on a weekly basis of how much energy I'm using and the projected cost for that week, and the customer at service is outstanding.

We also have a voluntary demand response program. That program pays customers who choose to reduce usage at an appropriate time. For example, we invite them to adjust their thermostat or switch off their pool pump. Some can do that on an autopilot basis and some can actually reserve the right to take the action themselves. When we give them – when they make that change in their usage, we give them an incentive after the [ph] fact (01:18:14). In recent years, while we have still triggered the program, even though there haven't really been that many scarcity events, we've chosen to take strategic test to keep our customers engaged in the program and our process is strong along the way.

So, turning to slide 20, all of this is built upon a platform that's shown here simply on page 20 that provides tremendous scale at a national level. Chris will talk later about how his group supports our supply and risk management needs with NRG. But having best-in-class supply and risk management expertise at NRG is a benefit. It allows our retail teams to fiercely focus on acquiring, retaining and serving our customers. Whatever the region or brand, we're able to bring common practices, as well as expertise in marketing and sales, a primary driver for our customer growth. And our offer and margin management processes while tailored to the brand and market are run with a common set of tools and guiding principles that have enabled our stable margin success since 2011.

Now on the operations side, really the customer operations side, there are costs and speed to market opportunities that simply aren't available to other reps with a lesser scale or with lesser regional presence than we have. Whether it's staffing or language services in the call center or payment processing or the ability to rapidly adapt to new rules or market conditions, we have that national scale to do things quickly and efficiently. Underpinning all of this are common and tailored systems and tools that enable NRG.

Of course, this saves money, but it also provides us with a speed to market and speed to scale capability that we need and many others don't have. Our differentiated capabilities and scalable national platform help us deliver strong margins on a growing business, powering our EBITDA growth and cash generation. I know you all want details on the margin expansion component of the plan and specifically how it will be achieved. This isn't going to be a new bright shiny product that would be completely insufficient to achieve our objectives. With the Transformation Plan, we're fundamentally improving some elements of how we do business.

Now, turning to slide 22, I guess this is the moment you've all been waiting for. Let's dive in. So, Mass Retail as Mauricio mentioned has the lion share of the work in the margin enhancement plan. As you can see here, a very high-level roadmap for how we'll deliver on the $180 million, which is the mass market portion. We'll do this net of the OpEx required to deliver the customer growth, that's part of the program.

So first, the value program. This will deliver $105 million of our margin enhancement commitment. Second, the customer program. It will deliver $75 million of our margin enhancement commitment. Noticed that each of the two programs has three specific projects and then I go through each one of those in more detail next. But the way to view [ph] the gain (01:21:49) chart on the right of the slide is that the more intense the color, the more impactful that initiative is, at that particular time in the transformation period.

Now every one of our programs began in 2017 and you can see that two of the projects have a major role in 2018 and one has a lesser role, but those efforts combined will generate that $27 million of Mass Retail margin enhancement that we're committed to for 2018 and we're well on track for that.

Moving to slide 23, you can see the margin enhancement wheel for Mass Retail. It reflects $180 million committed in 2020 and you can see the value expected from each of the projects around the wheel. So, let's dive in and to the next details of the first program. So, one thing I will share with you is, as Mauricio said it too, we're thoughtful about what we share here. So, we don't reveal competitively sensitive information that the people we call the bad guys, our competitors can use.

So let's go, 24. Starting with the first value enhancement project. It's called the Retention Performance Initiatives (sic) [Retention Performance Improvements] (01:23:10). The project consists of advancements to our retentive services and the way we engage our customers. We're constructing tools to help us anticipate which customers are likely to leave us and why. With these tools, we can refine our focus with our retentive efforts. This is expected to really help us during summertime, which is when customer attrition typically increases because of something we call Bill Shock. Bill Shock is when a customer's bill is materially higher than he or she is expecting. And we actually got a chance to try out some of this in the first quarter when we had the higher – colder than normal winter in Texas.

We gave the tools an early trial and we saw positive results. We were able to have more effective conversations when customers experiencing Bill Shock [ph] called us (01:24:04). We retained more customers than we expected given the circumstances. Now while this trial was small, it gives me confidence that as we see this summer this year and next year and the year after, it will pay off.

We can use these findings from this analysis to help us improve both proactive communications, as well as reactive customer lifecycle communications. And they're working. One customer said just last month, I appreciate how the customer service reps can knowledgably answer questions about my plan and available options when I am renewing my contract. That confidence they have in us when they call will lead to them staying with us longer and trusting us with their business.

So, the last area on the retention initiative is our digital makeover. We historically had leading capabilities in our apps and web experience, but we recognized with the new generation, they demand even better and we're making significant upgrades to our online app and other digital experiences.

This includes a new user interface, which is customizable and even allows you to control your Nest thermostat. These recent and upcoming improvements provide usage management, home automation, and other features, as well as the ability to customize based on the options they have with us and their preferences.

All of the capabilities we've built so far and those that are in process now are informed by direct feedback we've obtained from customer research. Feedback from customers so far is that they love it. I'll give you one more quote. This customer sent in a quote on March 2nd. I can do everything I need to do on this app, pay my bill, check my usage, renew my plan and even connect to my home security or my Nest. This project started last year and some of the margin enhancements show up this year, but the bulk will show up in 2019 and beyond. In total, we see the retention efforts contributing $25 million to our margin enhancement goal.

Now, project two. On slide 25, some of the highlights from the biggest initiatives that we have evolved, which contributes $50 million and that's our Platform Enhancements initiative. This involves improvements to our data capture, so we can bring a full spectrum of customer and campaign information into our analytics. As an example, we capture data at a variety of touch points and we have for decades a phone call, an online search, a web chat, [ph] a real offer (01:26:48), all of those were in individual spaces. Our ability to harness the interesting aspects of that information through speech analytics and transactional data, those will maximize the benefit both to the customer and the value for us, which is fundamental to the success of our Platform Enhancements project.

We're also building a set of AI powered tools on top of that more robust platform. These tools will help us with our existing customer base as we are able to offer customers the right product that maximizes value both for the customer and for NRG, and this is based on the insights about the customer, that specific one, as well as those that have preferences and behavior similar to that one customer. Our tools and capabilities underpin a robust set of processes we use to analyze customer behavior and the most important element, which is the ability to act on the insights we've gathered. Ideas are interesting, execution is a difference maker.

For years, as I mentioned earlier, our strength has been in execution and we're now using that strength to deliver across the Platform Enhancements program, which was the first program we started last summer and it's one of the two primary projects that will contribute to the $27 million of margin enhancement in 2018, and of course, they will be applied throughout the program. We expect to see actually some results from this initiative show up in our first quarter financial results that you'll see in early May.

Moving on to slide 26, [ph] secondary product penetration (01:28:41). I mentioned earlier, no bright shiny projects that are distracting [ph] . It's (01:28:47) product penetration. This involves profitable growth of some of our secondary product lines that complement and reinforce our core electricity offerings.

So let's start with current customers. We offer secondary products to current customers when we have service and retention conversations with them. These products help increase the value to NRG, because the customer is buying two products from us rather than one. We typically see both a margin and a 10-year improvement on customers buying these secondary products.

Now let's switch gears and think about secondary products for acquisition customers. We call them prospects. A great example of this is natural gas in the East, where we're able to sell both gas and electricity in many of our channels. This dual-fuel product make sense to the prospect, is great for sales agents and delivers more overall margin per customer to NRG. The timing and impact of our secondary product growth will begin during the second half of this year, so nominal impact. But then in 2019 and 2020, it will contribute the full $30 million to our margin enhancement program.

Now, switching gears to the customer growth, [ph] our (01:30:11) program within margin enhancement. The first project is the digital enhancements project. A case study of this project is our acquisition enhancement, which increases the utilization of digital tools when enrolling prospects, even when they're interacting with our call center or face-to-face.

We're enabling prospects to use their phone or laptop to expedite the enrollment even when they choose to talk to a live sales person. The cell phone gets them into our web and online presence. With this new capability, our agents and prospects can look at the same information, process transactions together and everyone saves time. Given customers appreciate fast and easy interactions, this new capability has proven to increase the number and value of enrollments.

Using our platform enhancements, we can find patterns that drive behavior. We're now doing more sophisticated A/B testing online than we've ever done before. Most of you probably know what A/B testing is, but for those of you who don't, that's when we present version A, which includes a set of offers or features or the order of steps or even the format of the website. Half of our customers get that. And then half get version B, and we do trials to see which has better results. And A/B testing, that's not a new concept. It's something we've done for a long time.

What is new here is we're applying it at a much more granular level and the results are remarkable. The first two months of 2018, we have seen a 50% improvement in conversion in online sales and that's over a year-over-year basis. If that keeps up, I've already warned the team, I may just have to increase the goal for this part of the digital enhancement initiative. These have been underway since 2017. The team has significant momentum, and we expect them to begin materially contributing in 2019 and 2020. They're only accountable right now for the [ph] 15 (01:32:21) million, but as I mentioned, if they keep up the success, they'll get a little more.

On slide 28, you see our next customer growth imitative. That's channel performance. This involves making improvements in the effectiveness of the channels we have. The initiative involves inspecting every single one of our channels. The internal returns for each, the underlying processes and then directing our sales dollars to the highest performing channels. As a result of the analysis, we've also launched process improvement and automation initiatives to drive increased returns from the channels across the board. These improvements create a higher sales close rate combined with more valuable products and that leads to margin enhancement.

An example of this initiative, we looked at salesperson performance, both in our face-to-face channels as well as our contact centers. And we've identified new insights that drive performance of the sales team. So we've created new metrics, new monitoring methods and we're evaluating performance differently and that's really leading to improved results. I'd love to tell you more about this one, but you never know who's listening, so we're going to not get into more detail because we're not interested in others following our winning strategy.

The channel performance initiative, it began last year and when we acquire more customers, we have incremental operating cost to recover, so it takes a little bit longer to see that materialize in our margin enhancement, but that project will deliver $30 million towards our margin enhancement program.

And finally, the last project, which is outlined on slide 29, is the channel expansion project. It's the most straightforward of our [ph] roadmap projects (01:34:17) doing more of what works or just one word, more. We expect to grow our business. This means more channels, more direct sales people, more agents out there in the marketplace. If you're wondering how, it's just like what I discussed earlier when I talked about the confidence I have in the growth opportunity both in Texas and in the East. We can capture more of a growing market or grow just a little bit of share every year and we can increase our share in the East by prudently investing in sales channels that are proven.

To bring this to life, here's a specific example of a grassroots hub and spoke approach in our sales team. A hot growth area for us is what we call [ph] event, (01:35:07) where we set up a table where people gather at an event, a grocery store, a music concert. It's a great model where we bring a relevant product in the airport that's usually a product [ph] with mile (01:35:20) to travelers. At the complete other end of the spectrum, believe it or not, is the Philadelphia Flower Show. Our Green Mountain team looks forward to this event every year, because it's a great fit for the brand and the products and delivers great results.

Nine days at the beginning of March deliver some of the rosiest results all year. This year we sold over 20% more than we sold last year. We leveraged the hub that we have, which is so strong and scalable and we increased the spokes to expand the channel to get more sales. Our channel expansion is the other primary project contributing to 2018, and it will deliver in 2019 and 2020 as well and we expect $30 million from that program.

Now, transitioning to slide 30 and our outlook. We have a strong track record of delivering results in mass retail even when nobody in the room remembered what we were striving for. The transformation program is exactly what we needed as a spring board for our expansion efforts.

As I speak to you today, I'm happy to say on slide 31, that we have a solid foundation, and our markets have room to expand our customer base. Our distinct brand, channel and innovative products enable us to win in the market and maximize the value of those relationships. And our transformation efforts have serious momentum. We will achieve our goal. I'm very confident in our retail business, maintaining and advancing our position as the strongest competitive retail energy company in the country.

Thank you.

[Music] (01:37:15-01:37:19)

Operator: Ladies and gentlemen, we will now take a short 10-minute break, and we'll return to our seats in approximately 10 minutes. Thank you.

[Break] (01:37:28-01:52:38)

[Video Presentation] (01:52:39-01:54:00)

Operator: Ladies and gentlemen, please welcome Rob Gaudette, Head of Business Solutions.

Robert J. Gaudette

Senior Vice President, NRG Business Solutions, NRG Energy, Inc.

So, good morning. I'm Rob Gaudette and I lead our Business Solutions team. There's nothing like following professionally done ads with PowerPoint, but Business Solutions is a part of NRG that deals with the large business customer. In this presentation, I plan to tell you who we are, talk about the markets and the competition and walk you through our primary products. I'm also going to build off on Mauricio's comments on the integrated platform and how it gives Business Solutions a competitive advantage. We'll then wrap up with a look at our margin enhancement and our potential financials.

Now turning to slide 2. I want to ensure you take away three things. The first is the C&I energy service market is strong today. The trends are in the right direction and we're taking all of the right steps to benefit from those trends. The second is NRG is positioned to win in this market. Our products and our platform put us in the lead position with the customer. And then the third, our competitive advantage enables us to reach our growth targets at attractive returns.

In this next section, we'll put some color around Business Solutions. I'll describe to you the business, I'll take an opportunity to talk about the market, and finally, we'll put our platform in the context of the competition and hopefully differentiate it for you. But before we get into that, the C&I market has historically seen players that let the risk reward calculation get away from them, [ph] leading (01:55:50) the losses. We've had a different approach. We have not and do not chase market share at the expense of earnings or return.

We've historically allowed our competitors to chase business when we didn't see the benefit. It's that discipline that's enabled us to rethink the business, streamline our operations and focus where we have the most advantage.

So let's talk about Business Solutions. I want you to think about it in three parts. The first is the supply team with 20 terawatt hours of load. We've got about 11% of the ERCOT market and we're active in every competitive retail market. The second is a top three distributed energy resource group, where we got about 12% of the Northeast market share and we've built a state-of-the-art network operating center. And then finally, a services and customer experience that is entwined with supply and DER. It's this component that amplifies our relationship with the customer and it wraps two important product sets and makes our offering more valuable. On the right, we try to leave you with a way to truly encapsulate the view of Business Solutions. Supply and DER interwoven with a unique services component.

So turning to slide 5. Now that we've talked about the portfolio of products and services, let's talk about the market for the large energy consumer. We're seeing two major trends. The first is that this market is growing. The 2,300 terawatt hour market is expected to grow at over 6.5% according to EIA. The second and the more important trend is the customer demands are increasing. Our customers are growing more sophisticated, demanding more than just megawatt hours. Information is plentiful and data is becoming more important, leading to a higher standard around providing insight and guidance.

And finally, our customers typically produce goods and services, they're not in the energy business, and there's hundreds of products out there claiming to help. In reality, it just makes things more complex. The complexity is driving our customers away from vendors and towards partners. The segment's seeing substantial growth and we're positioned to benefit.

On slide 6, let me try to differentiate us from the competition. So there's three primary forms of competition in the space. The pure play retailer; well, the things I want you to remember are they lack the complexity to deal with the most sophisticated of customers and they lack the wholesale market expertise to actually create products in an evolving market for our customers. The second is the gentailer and Mauricio talked a little bit about this earlier. Typically, a generation silo and a retail silo. There's really no integration between the two and no real path to translate both sides into products and services for the customer.

And then, finally, there's the portfolio of companies; for lack of a better description, a conglomeration of stuff. It's got lots of promise, but there's no integrated offering, there's no coordination of effort. Candidly, NRG in 2014 or so would have fit in this category. The biggest downside of this model is that it actually makes things more complex rather than providing the clarity that the customer seeks. We like our model and it has all the tools needed to address the emerging market.

So, if you turn to slide 7, let's actually address what we see as the greatest advantage for Business Solutions. Integration with the platform that Mauricio described takes the business from something that's interesting to something that's one of a kind. When you integrate Business Solutions with the Wholesale business that Chris is going to describe shortly, you gain a market interface and a market knowledge and the expertise that comes with it. You get commercial product development and management, you bring the power of the wholesale market to the business customer and then you get a regulatory presence and government affairs that only a major player could have. We also benefit from the integration with the strong business that Elizabeth just described. You get the back office systems and the scale of the leading retail platform, you gain the customer-first culture that 3 million customers drive, and you get the brand propagation that the NRG Retail companies possess.

So our advantage is that we take our advanced offerings and couple them with the commercial advantage of integration with our Generation business, and the customer focus and operational excellence of our Retail business. The advantage is going to show up in three ways. The first, a customer-focused organization from front to back. The second, commercial innovation and customized product offerings that others cannot offer. And third, a unique platform capable of bringing the best of the energy markets to the business customer. It's this integration with the NRG platform that creates our competitive advantage.

So, if you turn to slide 8, so we're going to take the next few minutes to go into some detail around the primary product categories and the service wrapper that makes our opportunities so appealing. On slide 9, the first is the supply, the market is evolving from megawatts to becoming an energy partner. You really need to think about supply in two pieces; and on the left is the traditional supply. It's a volume-based business, it's low touch, but the important part is it's a source for future upsell.

The key to success in traditional supply are speed of transaction, efficiency, scale and we're working on all of those things. But the real opportunity here is to take these customers from what's on the left to what's on the right, which is structured supply. This is a service-based business. It's high touch, it often involves custom products, and the key to success here are increasing our role as an advisor and a partner, working with the customer to evaluate the best product mix, and sometimes involves sharing a risk with the customer. As you can see from the chart below, these are all of my competitors stacked up. We're somewhere in the middle. We have the opportunity to grow our business.

Before we leave the chart, I mentioned the top three demand response business. Something I'm going to point out is that the guys to the left on this chart don't have what I'm about to talk to you about.

So moving from supply to DER on slide 10. As the markets continue to evolve, the need for distributed resources and distributed generation will continue to grow. Our resource group is composed of traditional DR, asset-backed demand response and [ph] a reliability team (02:02:52).

Before I go into it, let me tell you what demand response is not, it's not just about flipping off lights, it's a portfolio management to a market obligation and a market need. It involves risk management and automation. And for traditional DR, it involves individual customer curtailment plans at each and every customer site. We also have a new product. We call it asset-backed demand response. It has multiple streams of income generation and it provides resiliency and often energy savings to the customer.

The keys to success for DER are strong relationships with our customers which we have, efficiency and automation which we continue to work on, and market understanding and interfaces that I discussed earlier, and it's our strength of NRG. It also involves risk sharing between NRG and the customer.

On the right is a picture of our network operating center or NOC. It's purpose-built. It's state-of-the-art. From there, we can control every utility program, see every demand response event and monitor every generator. It's also tied at the hip to our trading floor.

We're positioned to grow this as the customers and the markets' needs continue to evolve, I've touched on it and you guys may have seen some press about it, on the next slide we're going to talk about asset-backed demand response to put a little more meat to that bone.

On slide 11 let's get into the details around the product. The first thing is it starts with a strong partnership, NRG and Cummins. We have a combined sales strategy, Cummins brings their natural gas-fired generation and their

O&M network or operations and maintenance network, we bring our commercial acumen and we bring our demand response business. That includes our network operating center, it also involves our commercial trading floor.

You add to that an innovated solution for the business customer, onsite gas-fired behind-the-meter generation. We immediately enroll those guys in market programs like demand response, we then optimize that asset to optimize their bill the customer gets onsite resiliency and they often get lower energy costs, this provides a compelling value to NRG.

We see returns above our capital allocation thresholds and it leverages our commercial capabilities. We're currently targeting 225 megawatts over the next five years and given our pipeline we feel pretty good about that. This is a winner for the customer and this is a real opportunity for NRG.

You guys recall earlier I talked about services, so let's quickly unpack that. The first is advisory and consulting. As a major power player we have to have expertise just to run the company. From regulatory to energy finance to sustainability we can harness that capability to provide service and support to our large business customers. If you move to the right, this represents the work we're doing around our digital interface and our customer experience. We've revamped our portal, we've refreshed nrg.com and we've raised the experience level for all of our customers.

We get better acquisition and retention, but more importantly we get data from our customers, which leads us to our third component, data and analytics.

The cost of metering and data collection have gone down, the value of insights from that data has gone up. We can use this data and the capability to identify the best solution for the customer. And so identifying the best solution for the customer leads us to the final component, which is partnerships. Now rather than spend money to acquire products for every customer's every need, we're partnering to get the best of both worlds. We get the best products for our customers from leaders in the field like Cummins, and we get to focus our efforts on the commercial and customer side of the equation.

So, I've discussed the business, I've discussed the market, our competition and our advantages. I just finished going over our primary products. So, let's wrap up by talking about margin enhancement and financials.

On slide 14, you can see four major categories of margin enhancement and we're on track to capture our $25 million in the plan. We expect to see $13 million from redesigning the front office, shortening the sales cycle and improving our closing rates. We plan on $6 million from the next generation customer experience. Not only will it increase retention, but providing better insights and better brand equity, it also helps in acquisition by gathering data to better enable product development, which leads us to expecting around $4 million from technology and infrastructure support, creating the platform for the data analytics and gaining the margin from upselling and creating customized products for our customers. And finally, $2 million from automation; providing seamless data access, digitizing processes, and enabling us to serve our customers better and faster every day. We feel very good about our progress on this $25 million goal. And on slide 15, I'll try to put it all back together.

So, if you start in 2018 with our $60 million adjusted EBITDA and then you add $25 million of margin enhancement for 2020 you then take what could potentially be around $65 million from other products like asset-backed demand response. What you end up with is a compelling opportunity to grow this business and see returns on capital that make sense and meet or exceed our thresholds. There's a real opportunity to grow this business by enhancing it, by meeting the customer needs and meeting our capital thresholds. So turning to the final slide on slide 16.

We have completely redesigned the way we approach our customer and this business to ensure we're leveraging the strengths of the integrated NRG platform. We streamlined our approach to focus on the essential products to serve the customer and are supplementing those products with partnerships to enhance the offering. And finally, we're growing the business through margin enhancement I detailed and additional opportunities like asset-backed DR that exceed our planned return thresholds. Business Solutions, integrated more than ever with the NRG platform of Retail and Generation is set to thrive in the growing business segment. Thank you.

Operator: Ladies and gentlemen, please welcome Chris Moser, Head of Generation.

Chris Moser

Executive Vice President, Operations, NRG Energy, Inc.

Good morning. My name is Chris Moser. I just got some great advice from my friend right there, who said don't mess this up, we've got a good thing going. I'm Executive Vice President for Generation here at NRG, and I'm excited to talk about the Generation business today. Although I will say that Generation wasn't what it was when I started back in 2008, obviously gas prices are different et cetera. I think back in 2008, we could have probably made all of the different animations and whatnot because we had cash blowing out our ears, but it's a new day and that stuff goes to Elizabeth who uses it in ads now instead of us.

Let me talk a little bit about what I'm going to cover. First, we have evolved over time, and we've been working to strengthen and streamline our Generation business. Second, although the market trends we see are mixed, some are good and some are bad, we've been working to reduce our exposure to the negative trends and focus on being in markets well-matched with Retail where we have upside. And third, when you combine Generation and Retail together, it reduces risk, it improves stability of earnings for the company overall.

Let's start by looking at the journey that Generation has been on and some of the improvements we've made along the way. This chart on slide 4 has time on the X axis and generation on the Y. NRG took its first steps to an integrated portfolio back in 2009 when we purchased Reliant Retail. Back then gas was high double-digits and Retail was thought of as a hedge for the Generation fleet, not the reverse.

Then between 2012 and 2015 there was a wave of consolidation that hit the IPP sector. We eventually doubled the fleet to over 50,000 megawatts as we added GenOn, in the dark blue, Edison Mission in turquoise and renewables and the yield program in pink. The main thesis here was eliminating costs by realizing synergies as we combined different companies.

This expansion vastly increased our presence across the Northeast, California and Chicago. But as Mauricio pointed out value migrated away from the assets and towards customers and the relationships with customers. We began streamlining our fleet to better match Retail and stay in markets that we liked, in effect reversing who was the hedge for whom.

Through a combination of GenOn's exit and the transformation plan we're well on our way to streamlining the fleet. But it doesn't matter how well-matched you are between Generation and Retail, if the Generation doesn't perform when called upon. I'm happy to say that our operational performance has remained best-in-class throughout the transformation.

On slide 5, there are four different operational metrics each with time on the X axis and the metric itself on the Y axis. These metrics are safety, which has been and will continue to be our number one priority; operating expense, reliability and key [indiscernible] (02:12:56) performance indicators. Quick hint, the lower the number is the better with the exception of reliability.

And as you can see, the performance has been fantastic. In no small part because by the time we've gotten to be as big as we were we had added Mirant, Reliant Generation, NRG Edison Mission, the people who are running the fleet today are the best of the best from across four different companies.

And so, this is what you get when you have good people running good plants. I would be remiss, if I spoke about Generation though without shining a light on one specific area that may be under-appreciated, our low going forward environmental CapEx. On slide 6, we have time on the X axis and dollars spent on the Y axis, and environmental CapEx is depicted in the dark blue. It peaked in 2015 and 2016, most of that was around the Chicago fleet and I know that Kirk will touch base a little bit on the monetization of capacity that we did, which helped pay for that, but since then, it's obviously tailed off dramatically. As we look to the next few years, it's our expectation that that environmental CapEx will remain low.

Here then on slide 7 is a map of our Generation portfolio, once you strip out GenOn, and after we take account of the announced asset sales. We're going to be about 11,500 megawatts of generation in Texas, which is currently a very tight market and the only one with any load growth. We're going to spend more time on Texas in a minute. In the east, we have another 10,000 megawatts, many of which enjoy strong capacity prices due to being in premium zones.

Finally, we have about 2,500 megawatts of assets in the West, which continued to support reliability even as California fearlessly forges its own unique energy future. As you can see in the pie charts on the right, we're about 46%, 47% gas and 30% coal after those reductions, having reduced our coal holdings via GenOn's exit and the [indiscernible] (02:15:03) transaction we announced a couple of weeks ago.

Now, we spent a little time introducing the fleet, I think it's time to turn our attention to the market trends that are currently impacting Generation. As Mauricio mentioned, at a macro level, those trends are mixed. Asset retirements are reshaping the supply stack, most notably in ERCOT where load growth averages on a weather normalized basis about 2%. Together these retirements in load growth put increasing pressure on reserve margins. We'll talk more about that in a little bit. Out East, there are several proposed market reforms all of which are positive for us and for our fleet, which we will cover shortly.

Now for the downers; natural gas and prices have settled into a low stable range and show no signs of budging. Renewables have arrived in several supply stacks aided mostly by subsidies, and finally, disruptive technologies like batteries can have a negative impact, but they show no likelihood of economic adoption anytime soon.

Turning to a deeper dive on the East market on Slide 10, the upper left hand chart is just a reminder, it's a time series of the capacity prices that we have enjoyed [indiscernible] (02:16:14), which have been substantially higher than the average PJM zone's clearing price. The bottom chart shows the PJM's future deactivations and illustrates the recent surge we've seen in retirement announcements in that market, which could help tighten marketing conditions in the future.

Finally, the right hand is a list of potential positive regulatory changes. PJM has proposed both energy reforms and capacity reforms that would help boost prices and increase earnings by our fleet. Let's spend a little time on that. Last month, PJM filed constructive comments in the Fast-Start docket and what they did was they actually expanded the number of units eligible to set market prices beyond FERC's original request, FERC was originally talking about a one-hour [ph] min run and start time (02:17:06) and PJM is try to expand that to two.

This is in lock step with PJM's overarching price formation efforts which they recently highlighted in testimony before Congress. We expect more information coming this summer about their ideas regarding allowing inflexible use to set price and also potential improvements to scarcity pricing. PJM is also active on capacity reforms and is expected to file two different options before FERC, aimed at eliminating the pernicious price impact of state subsidies.

There are many details that remain to be worked out. But the direction is clear and the direction is positive. At a national level even though FERC rejected the DOE NOPR, FERC did open a docket to examine the issues raised. Remember DOE was primarily interested in promoting onsite fuel at power plants, and I expected to see that the DOE plant may blossom and be beneficial to our solid fuel fleet.

Now, let's turn to ERCOT. On slide 11 Texas looks tight this summer and looks to remain that way for a while. The left hand chart shows reserve margins, while the right shows summer prices for the next three years. Turn your attention to the left chart. Time is on the X and reserve margins are on the Y. The pink is where the CDR set reserve margins as of December. Note that these levels are well below both where they were expected to be a year ago as depicted by the shadow boxes give or take 20% and below the old target reserve margins of 13.75%. The large drop in reserve margins is due to recent unit retirements and the continued delay of new conventional generation.

Make no mistake. These retired units including a 1,000 megawatts of our own Greens Bayou 5 and S.R. Bertron peakers were driven out of the market due to persistent low prices in an energy-only structure. How low? The past several summers cleared in the mid-30s. As you can see on the right summer 2018 is trading at $150. Let me repeat, summer 2018 has responded to the increased threat of scarcity and is trading near $150 a megawatt hour.

That last violent move up you see was in part a reaction to the seasonal resource adequacy report. That report shows that ERCOT expects to have only 550 megawatts available for operating reserves on the peak hour. The report went on to show three other scenarios – three worse scenarios with higher loads, more outages and less wind. Those scenarios each showed ERCOT short more than 2,000 megawatts.

Notable on the right panel is the strong backwardation. To my mind, there is very little reason to assume that 2019 won't end up as tight as 2018 appears to be. Yes, the CDR 2019 reserve margin forecast is slightly higher at 11.7%. But to get there, ERCOT assumes almost 10,000 megawatts of new build, 7,000 of renewables, and three of new gas. Well, that new gas has been pushed back year after year and looks to be slated for 2020 rather than 2019. And as for the renewables, the actual amount built has historically come in about half of what the CDR has forecasted. Adjusting either assumption means that that 2019 reserve margin will end up well below the current forecast shown, which is low to begin with.

Now, if I had to explain the even lower 2020 market, my assumption would be that the market expects new build to arrive by then or you have the normal problem of sellers exist in 2020 and buyers don't because no one is responsible for the load out there yet. Still there is not much you can do to site permit and construct a new generation station before this or even next summer, but there may be time before 2020. However, the market does not appear high enough or long enough to incent rational new build.

Turning to slide 12, we have time on the x-axis and the ERCOT on peak calendar spark spread on the Y demonstrating that the market is basically flat to the annual revenue requirement of a new CCGT in 2020 for a single year. After that single year, the current market doesn't support new build at all. And a single-year flat to the revenue requirements does not a profitable 30-year investment make or at least [ph] it doesn't (02:21:44) to the NRG.

Speaking of new builds, turning to slide 13, you'll see a chart with various technologies along the X axis and dollars per megawatt hour on the Y axis. Each technology is depicted by a blue bar showing the needed price and a pink diamond showing where the market is currently. Starting with the CCGT, as I said before, the unit requirements are basically flat to the market for the first year and then falls off after that. Combustion turbines the next column remain out of the money. When it comes to solar and wind both are out of the money once subsidies expire, but maybe slightly in the money if the subsidies remain.

I would offer a quick caution on wind. The CREZ transmission lines were built to move about 18,000 megawatts of power, that was their design limit. There are currently 20,000 megawatts of wind on the system as I stand here and speak to you today. The practical import of that is the CREZ lines are saturated more often than not. Of course, you can build more wind, but the impact outside of the west zone is likely to be diminished since little incremental wind can escape the increasingly crowded zone.

The last technology on the chart is batteries, which have a much bigger footprint in California than Texas due to a difference in state specific appetites for subsidies and specially designed RFPs. As you can see in Texas batteries still have a long way to go before they'll be economic. And while they may eventually reach that point, I do not believe it will be in the next few years.

Having reviewed the market trends, let's turn to the benefits of an integrated portfolio and take a look at how the generation and retail that we have currently matches together and provides benefits. So, let's see how it matches up with the fleet in the east on slide 15. We see Generation output in pink versus Retail sales in blue. Even with a low capacity factor, Eastern Generation covers Retails take. And because the size of the fleet is also greater than the Retail peak load, we have plenty of generation to flex up as Retail grows.

Given the new acquisition of XOOM, our Gen fleet is now roughly 10 times the size of our – I'm sorry, is roughly 3 times the size of our new peak retail load. It used to be 10 times before that and it used to be 20-ish times before that when we still had GenOn. When we said we were trying to be well-balanced and better matched, this is exactly what we're talking about. Even so, the Eastern Generation portfolio remains mainly a capacity play as the pie chart on the right demonstrates with roughly 80% of the east gross margin coming from capacity.

As we turn to ERCOT on slide 16, we see on the left that Retail sales are actually greater than the amount of power generated. Although if Generation's capacity factor moved up, the units could generate more than Retail's cumulative take. On the right is a depiction of ERCOT's supply curve and where our units exist within it. As you can see, the units have a nice distribution across the supply curve and provide good protection to the integrated portfolio. The ERCOT market as you can see on that chart remains long and deep with a stack of combined cycles that afford ample opportunity to buy supply as both block and shape.

But on slide 17, we'll drill down into a more granular chart, one that depicts a full-year with every month on the X axis and megawatts on the Y axis. Those squiggly lines represent the high and low retail load while the shaded portions represent our generation. On the right hand side of this slide, we have a menu of choices to consider as retail expands.

The options to cover retail include purchasing from the market both supply and block. Obviously, there are heat rate call options you can do, there are dual trigger options, which have both the price component and a weather component. We can toll other units. There is obviously the option to build, although as you saw from slides before, I wouldn't expect us to be doing that anytime soon, and I wouldn't expect anyone rational to be doing that anytime soon.

But I would like to highlight one specifically working with Rob and our business solutions team, we can package distributed behind the meter solutions to C&I customers. It can be a nice win-win for the company and for the customer. Now, that we've seen how the assets and the load fit together, let's talk about the benefits of combining load and generation into the same portfolio.

On slide 18, it's a fact of life that transacting in the market comes with costs. These include market friction like crossing the bid ask spread. These charges also include collateral costs of having to post both independent amounts and variation margin as prices move. But these costs are eliminated when we cross retail load with generation internally.

And depending on the rate of crossing, those savings can range beyond $100 million a year, but the benefits do not end there. By combining retail and generation together, their offsetting natures not only reduce third-party transactions and collateral costs, but they stabilize earnings and decrease risk. As an example, let's look at distribution of gross margins for generation and retail separately, and then compare them to the distribution of a combined portfolio.

On slide 19, we have a chart with gross margin on the X axis and its probability on the Y axis. This chart was created by simulating thousands of different market scenarios varying power price, fuel price, load, et cetera, and then recording the outcome how frequently each gross margin appears.

When considering the shaded area, the higher the mound, the more probable particular gross margin is. The wider the base, the more volatile or how much variation in outcomes you may expect to see. In blue is the gross margin of the Generation portfolio on an open unhedged basis. As Mauricio mentioned, we see ourselves as being near the low-end of commodity prices. So you can see a tight left-hand distribution, whereas the right-hand distribution is longer – a long tail, which demonstrates the asymmetric upside, should there be an upswing in commodities.

Now, when we layer on open retail, you can see a wide base representative of a wide range of outcomes if retail were left unhedged. And we take a moment to remind you this is not how we run retail, but to be fair it is illustrative of what low market prices have encouraged every retail shop to do. The past several years in Texas, as I've told you before, have been very low priced meaning whenever retail has bought a hedge, it has reduced risk, but actually speaking, it has also lowered earnings compared to a completely unhedged case. This sets people up for a disaster coming into a year like this one. If you were not disciplined and you were completely unhedged, it would have paid off for the last eight years and you would get your head handed to you this year, okay. That's not how we run it.

But when we bring the two margin and two positions together and chart the gross margin distribution for the net position, we see that the distribution has heightened and the base has narrowed considerably. In fact, the standard deviation of the integrated portfolio is only about one quarter of the standalone businesses combined. This narrowing of the integrated portfolios distribution is evidence of reduced risk and therefore improves stability in earnings and cash flow. But keep in mind, this improvement happens without a single third-party hedge.

We can further shape that mound with select market transactions, if we choose. Simply put, when we combine Generation and Retail not only do we get paid to run the assets by the market, we create transaction cost benefits, collateral cost reductions, and a tighter distribution of outcomes. All of which benefits the stability of the overall portfolio.

Now, the slide – sorry the chart on slide 22 is simply another way to illustrate this. It should look familiar as Mauricio has already touched on it. The steady nature of Retail depicted by the flat line plus Generation near the bottom of the market cycle create a confidence in producing good value at current commodity levels while maintaining ample upside should a rebound in commodities occur.

In summation, I trust that I've left you with a better feel for how we have strategically streamlined and strengthened our generation fleet over time focusing on being matched with retail and being in good markets. You should have a keener understanding of the market trends facing generation and our position. And finally deeper insight into how our current generation fleet fits with our retail load and the many benefits we derive from combining the two complementary businesses. Thank you.

Kevin L. Cole

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

Ladies and gentlemen, at this time we'll take another short break. We'll see you back in your seats in approximately 15 minutes. Thank you.

[Break] (02:31:06-02:54:44)

[Video Presentation] (02:54:46-02:56:52)

Kevin L. Cole

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

Ladies and gentlemen, please welcome Kirk Andrews, Chief Financial Officer.

Kirkland B. Andrews

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

Thank you and good morning, everyone. Well, although we have a Q&A session that follows my presentation, as last speaker of the day, I'm obviously going to tie together a lot of what you've heard today from the financial point of view. But I'm also mindful of the fact that I'm violating the first principle of public speaking, that is never stand between your audience in lunch. So I will try to be as mercifully brief and succinct and clear as possible.

So let's begin with what I hope that you will take away from the presentation. I'm going to expand upon each one of these three points a lot of what you heard about throughout the morning. To begin, as you heard a number of times, the integrated model that we now have and are in the process of even further perfecting is what drives the robust and sustainable cash flow that is NRG. That sustainable cash flow I think is a better thought of as a key value driver even more so than EBITDA and I'll talk about that a little bit. It is also the building block that creates the capital available for allocation. Obviously, it's supplemented here in the near term about the asset sales that we're well on our way to completing, but on an ongoing basis, it is that excess cash that drives our ability to allocate capital.

Second, I'll spend some time talking about our target three times net debt to adjusted EBITDA and confirming the fact and why we believe that is appropriate for our business at this time. And third, most importantly, when it comes to capital allocation, especially given the magnitude of excess capital that we're talking about generating here in the near-term and over the longer term, the principles behind which we will approach that capital allocation cannot be overstated at NRG. And there's lots of different ways to say this, but the way that I think about it is when you buy a share of stock at NRG, you are certainly investing your capital, but you are also investing in your trust. You are investing your trust in us, Mauricio used the word we are stewards, we are stewards of that capital. And we have an obligation to you to allocate that capital appropriately to the maximum degree possible to enhance the value of that investment, because that is what we owe you in return for that trust that you invest in us.

And the way that I would sum it up here in bullet point number three and my key takeaways is our hurdle rate is important. We've established that 12% to 15% unlevered pre-tax return for a reason with that five-year or better payback. But [indiscernible] (02:59:40), it's necessary but not sufficient. The way that I see it is the greater of the hurdle rate or the return that's implied by our share price will govern the allocation of excess capital.

We have the ability better than anyone else because we know our market cap. We know our net debt and we should know our excess or our free cash flow on an unlevered basis on a forward look better than anybody else. That's a simple equation that implies in unlevered return. That unlevered return is greater than our hurdle rate that should be the hurdle rate.

So, let's turn first to quickly to slide 3 of my presentation. First of all, I'm pleased to report we are reaffirming our 2018 guidance. For those of you that are following on the phone or on the screen, I will tell you in quick summation that everything on the table in the upper left in 2018 is exactly unchanged from what you saw on the fourth quarter earnings call just a month ago. What important to highlight is we did on the call, one of the collateral benefits of the transformation plan that we're well on our way to achieving is that pro forma for that transformation plan, we significantly enhanced the efficiency with which we translate a dollar of EBITDA into free cash flow.

As I often say, EBITDA is an interesting and important metric, but it pales in comparison to cash. You can only spend the latter of those two statistics, and we're pleased that part of our transformation plan allows us to more efficiently convert that. And also as we reminded you on the fourth quarter call, just to summarize the component of our transformation plan that's embedded in that 2018 guidance is that $500 million of cost savings and $30 million of margin enhancements. The latter of which you've heard a lot more information from both Elizabeth and Rob as to how that grows over time and the programs through which we will achieve that growth.

But it is that growth it's also important to highlight. Beyond 2018, we get to a run rate of $590 million of cost improvements or cost savings and $215 million of margin enhancements by 2020. That is an incremental $275 million that is not reflected in our 2018 guidance. So, those are two important things to remember as we move forward.

Second, above and beyond guidance as you've heard, the XOOM acquisition is expected to contribute $45 million in annual EBITDA. That is important not only from an EBITDA standpoint, from a cash flow standpoint because retail is certainly the maximum efficiency in terms of converting that EBITDA to cash. It is the low capital intensity part of our business.

And finally, as those of you follow our press releases about a week ago, we also announced the successful repricing of our secured term loan at NRG, reducing the interest cost by 0.5% or 50 basis points. That translates into an incremental $9 million a year of annual interest savings. And I'm going to refer to that $9 million as we move prospectively forward, because it informs in part the cash flow benefits that are derived from delevering and optimizing our debt. The delevering component, you know about, we have R$640 million of delevering committed this year. The adder to that is that that $9 million of interest savings.

So, now, I'd like to return to an update on capital allocation. And while we've reaffirmed our guidance, I do have some items to update for you when it comes to 2018 capital allocation relative to what you heard from us just about a month ago. First of all, as we start – as we always do with sources of capital. What you see there depicted is as our usual practice on a quarterly basis, depicted in grey is what you saw the last quarterly earnings call about a month ago. In every case, depicted in blue is what's changed.

The first change is we are pleased that we have now executed an agreement to sell our Canal 3 development project that is a project that is on a site at GenOn. It was successfully negotiated as a part of the restructuring. And as a part of the GenOn asset sale process, we have identified, negotiated and executed an agreement to on-sell that project to a third-party and we expect the proceeds from that in the second quarter by our estimate of that closing to generate an additional $130 million of capital available for allocation or cash. That supplements our capital available for allocation we just updated you on our fourth quarter call. That gives us a total of almost $4.4 billion of total capital available for allocation before the committed capitals, much of which you've already seen.

So now let's move forward from left to right on the slide. The first update I'd provide you is the benefit of XOOM is that it not only contributes ongoing EBITDA, it contributes ongoing cash flow, but the former of those two things EBITDA is also denominator, as in denominator in our ratio.

As you will recall in on our fourth quarter call, in order to achieve and get to that 2018 3 times net debt-to-EBITDA ratio, we chose to allocate about $1.2 billion, in fact exactly $1.2 billion of capital as on fourth quarter call in order to ensure that the net debt, gross debt minus cash, ensures that as a ratio of our EBITDA in 2018 we are in line with that three times target. The benefit of the pro forma effect of the XOOM acquisition is simple from a leverage perspective of multiplying that times the ratio. That means that allows us to release earlier than expected $135 million of that cash reserve. And as you can see there depicted in blue, the cash reserve is now $1.065 billion having brought it down from the $1.2 billion you saw about a month ago. The benefit of that is that basically pays for a good portion of the XOOM acquisition relative to what we had previously allocated in 2018.

What remains as you move from left to right is our share repurchase program. I'm pleased to report we're happy with the progress of that. It is underway, and we will give you a more detailed update on that progress on our first quarter call. Shareholder dividends also unchanged, our capital commitment to GenOn, which we expect to emerge in 2018 at this point, $178 million as is our investment in our transformation plan, which we call costs to achieve, all of those are unchanged.

The only other new component is growth investments. The $195 million there you see depicted is exactly what you saw in the fourth quarter call. The only difference is we've now added the cash needed for the XOOM acquisition that includes transaction costs as Mauricio noted in his remarks. But importantly, the uses of capital are limited to XOOM in this particular case. The sources of capital are both the release of that reserve and the $130 million of incremental proceeds we get from the Canal 3. That obviously exceeds the XOOM acquisition, which means we wind up in 2018 with about $55 million more capital remaining to be allocated in 2018 than we had just a month ago in the fourth quarter call.

That will be the starting point as I take you through an update on how we see that capital building over time. Putting together a little bit more details on how those columns of cash build that Mauricio shared with you earlier, how that comes about. But before I go there, I'd like to take a few moments to talk a little bit about capital allocation at NRG, and I want to talk about that in the context of two sides of the equation if you will, and [ph] I'd call those sides (03:07:24) sources and uses.

The first is capital available for allocation. How we define the excess capital that is available for allocation. And then the principles with which we allocate that, the uses. So starting on the left side, capital available for allocation first and foremost is cash and cash equivalents on the balance sheet at NRG. So at the end of any quarter, at the end of any year, the cash on the balance sheet is the first component of capital for allocation.

How we translate that into available capital is we always deduct the first $500 million as our minimum cash target that is reserved for liquidity. We certainly have a credit facility for those of you who understand how collateral posting and collateral calls work, it is necessary to have some amount of cash on the balance sheet, so you can quickly and nimbly post collateral even on a daily basis. That's a good example of what that's for. However, any of that cash that is posted for collateral, we count as minimum cash. So if we wind up with $500 million of cash on the balance sheet, but we have $300 million of collateral posted, right, that means that there's $200 million of that cash that remains, so collateral posted counts against that deduct.

Second, this is what I referred to earlier as the builder. Free cash flow before growth investments, that is not only before growth investments, it is before all aspects of capital allocation, before the dividend, before de-levering, before share repurchases, and that is after importantly the capital and the expense that is necessary to maintain the operational integrity of our plants and obviously with paramount importance the safety of our employees.

And finally, any cash proceeds from divestitures, significant today because of the divestiture component of the transformation plan. But it has been in the past, and we expect it to be at least in the relatively near-term because we have a couple of dropdowns left that we've already announced as a part of the NRG Yield disposition or divestiture, that is supplemented by the cash proceeds from those dropdowns.

Now turning to uses, first and foremost, the primary and first use of capital for allocation is to achieve and maintain that 3 times net debt-to-adjusted EBITDA target. Now those of you, most of you who are very familiar with NRG, we have capital well in excess of what's necessary to achieve that. The excess as is defined on the slide is simply needs to be allocated to superior return opportunities. This is your capital, we are stewards of it. And the best way to deserve that trust that you've invested in us is to allocate it to the maximum return opportunity to ensure the maximum value for your investment as achieved.

So how do we do that? Early, as I've talked about sometimes with you one-on-one in various calls kind of two legs of the stool and they're depicted here on the slide on the right, growth investments and share repurchases. First of all, growth investments, obviously they have to be consistent with our strategy. Second, they have to be consistent with and ideally exceed our hurdle rates less than 12% to 15% pre-tax with the five-year payback. But as I've said before and I'll say again, that is necessary, that is a necessary condition for the allocation of capital to growth investments, but it is not always sufficient.

In order to be sufficient whatever return we're looking at for a growth investment also have to be viewed through the lens of the implied return on our stock price that I talked about before. And the best way that I can summarize that is we need to ask ourselves a question when we're allocating capital towards an investment. If we see it at or above the hurdle rate, we need to ask ourselves a second question to ensure we've met that necessary second condition and it's as simple as I've depicted there in italics, would we issue shares to fund it? We must be able to answer that question in the affirmative. And I can confirm for you with the XOOM acquisition we announced today we were able to do so, otherwise, we would not have allocated that capital.

Now on the right, share repurchases obviously they need to be compelling at the current price. We voted with our feet obviously on the fourth quarter call, but more importantly as I like to put it, we put our capital where our plan is. That means, we are confident in achieving the remainder of our transformation plan and we invested the capital to ensure that because we see our stock is being undervalued relative to the fundamentals that that plan implies and we are cognizant of the fact that when we buy back shares from the market lower than the fundamental value of the stock the value of that arbitrage [ph] in use (03:12:04) to the benefit of our remaining shareholders that value accretion.

Now I don't want to be remis in not acknowledging dividend as the other competent of returning capital to shareholders, but as Mauricio said, our first priority right now is to get our share price better aligned with value, so that we have the luxury of exploring the complete breath of the best means by which to return capital to shareholders. The reason why we have not changed our dividend is I think of it as the place holder, we have not foreclosed increasing that divided if that is the best means to return that capital, but as I said before, that is a secondary priority behind getting our stock price in line with what we see as fundamental value. We want to get to that point so that we have the luxury of exploring the true breadth of the optimal alternatives to return capital to shareholders if that is the most prudent use of it.

Now let's move forward for an update on a little bit more granular basis than we provided in the interim on the fourth quarter call. The last time we did this, as you recall, was on the Transformation Plan announcement in July of last year. First, we'll start with where we ended in 2018. We're now with $668 million of excess capital remaining to be allocated in 2018 and I'm going to move forward from left to right for those of you looking at the slide on the phone.

First, our pro forma free cash flow before growth $1.293 billion. How do we get there? We start with the 2018 midpoint free cash flow before growth. I'm adding the XOOM acquisition impact of full $45 million free cash flow EBITDA roughly equivalent. Second, the interest savings and that is the sum of two parts, $45 million in annual interest savings we achieved by virtue of the $640 million of de-levering we are committing to achieve in 2018. That's been the same number that we announced the first time we did it on the July Transformation Plan announcement and we are committed to completing that.

The second component is what I spoke of when I updated the guidance or reaffirmed the guidance and that's that incremental $9 million that's what gets you to $54 million of interest savings on an annualized basis in 2019 and beyond. And finally, the incremental impact of the Transformation Plan. Now this is going to be a busy slide, so I have put in the appendix for you a schedule that shows you how you get to the incremental impact both on free cash flow and EBITDA on annualized basis.

But in the context of the Transformation Plan in 2019 that's as simple as this year we have $30 million of margin improvements next year that's $135 million. So that's $105 million. This year we have $500 million of cost savings. Next year, we have $590 million. That's another $90 million. That's $195 million in incremental EBITDA and the only difference there is the slight change year-over-year in the working capital. If you recall the working capital component of the Transformation Plan is the one-time component. That is a one-time savings, it's not recurring. So it's important to deduct that and only count the recurring cash flow, that's what that $194 million is. That gets you to the $1.293 million.

Now moving to the left, the next green bar is unchanged. We have successfully announced or closed nearly $3 billion in asset sales today. That leaves us $205 million in asset sales remaining which we expect to complete in 2019. Third, the release of the debt reserve. Now, I mentioned earlier the two component parts that mean the incremental impact of EBITDA from the Transformation Plan in 2019. That's $195 million. To understand how that gives rise to the release of the first component of the $1.65 billion of excess cash we've intentionally allocated to the balance sheet in 2018 to achieve that three times ratio, the first $585 million of that is simply the product of the incremental EBITDA in 2019 and our target ratio.

Next, and this will be a recurring theme, we have very little committed allocation in 2019 and beyond. You will find that in the context of 2019 through 2020, it is less than $200 million or less than 5% of what will ultimately be over $4.3 billion in excess capital by the end of 2020. That's where we're heading. And the component parts of that committed allocation, I should tell you include our ongoing amortization of our term loan, the annual payment for the pension for GenOn, which was a part of the settlement that's about $15 million a year.

And third, this is very important. Back in 2016 and Chris Moser mentioned this in his presentation as well. We chose to monetize, take some early monetization of our future capacity revenues from our Midwest Generation portfolio. In doing so, we put that cash on the balance sheet right then and there in 2016. Now, the way that that works is we continue to generate the same amount of the EBITDA whether or not we monetize that capacity early or not. The way that that capacity monetization flows through the balance sheet in this particular case is it's treated as a loan. So the payments to that is literally treated as an amortization of a loan. In 2019, that's $72 million of amortization.

2019, this is very important, is the last year of that payment, of that repayment, if you will, to the counterparty that we monetize Midwest Generation. When we move to 2020 and beyond, the EBITDA of our Midwest Generation portfolio drops more efficiently to the bottom line. There is no counterparty for capacity revenues from 2020 and beyond. That will be important not only as we move into 2020 but also when we talk about the credit ratio.

That leaves us with $2.6 billion, a little more than $2.6 billion of excess capital available for allocation through 2019. Moving into 2020, the implied pro-forma free cash flow before growth is a little over $1.3 billion. That is simply taking the compounding effect. The $1.293 billion that we have in 2019 and the Transformation Plan free cash flow is an additional $16 million.

Now that's primarily $80 million of the last component of the margin enhancements as we move from $135 million to $215 million from 2019 to 2020 in margin enhancements, but there is $64 million of working capital improvement in 2019, there is a one-time improvement. So if we deduct that one-time improvement, the net effect of that is $16 million of incremental free cash flow.

Next, the final and complete release of the debt reserve. First of all, I mentioned earlier we have $135 million of margin improvements in 2019 going to $215 million that's $80 million of upside. That Transformation Plan is additional EBITDA. In addition, as I mentioned it earlier when I went through Midwest Generation, once the Midwest Generation capacity monetization no longer gets repaid, right. We've completely repaid it. The EBITDA nominally in our consolidated report for Midwest Generation is exactly the same as that which we count in the denominator of our ratio. That's $80 million of upside in terms of denominator power. So that combined with that Transformation Plan upside. We saw $160 million of incremental EBITDA in the denominator of our ratio. That times three you'll find is exactly what remains of that cash reserve we talked about in 2018. So we're on a path to a complete release of that cash. The only cash you'll see on the balance sheet in 2020 on a pro forma basis is exactly that $500 million of minimum cash and that is by design. That is what we intended to do.

Now, as you can see there that committed allocation in 2020 is only $72 million. The main reason as I spoke about before that is just Midwest Generation finally making its way out of the system. We have on-going debt and amortization that's just the term loan. That's the only amortization you'll see going forward. The dividends are unchanged at $38 million at current rate and those of you keeping score, I've been a little conservative here as we buy back shares obviously the number of shares outstanding goes down, I've left that alone. So there is a little upside there in the $38 million, but it's a small number to start with.

And then the ongoing GenOn pension payment. That leaves us with over $4.3 billion in excess capital available for allocation through 2020, that number is consistent and slightly higher than what we told you just a month ago on the fourth quarter call.

Now, let's turn for a look forward and tying some of what you've heard together about 2021 through 2022. First, we start with that year-end 2020 $4.347 billion of excess capital, and add to it two years of free cash flow before growth using the 2019 – using the 2020 run rate. Two years of that is $2.618 billion of additional free cash flow, and two more years of that exact amount of committed allocation we showed you in 2020. That is what leads us to $6.821 billion nominally of excess capital. And adding back the share repurchase allocation this year, that is what gets you to $7.821 billion in excess capital available for allocation pro forma through 2020, that is greater than 80% of our current market capitalization as Mauricio noted in his remarks.

Importantly, some of what you've heard from Elizabeth and Rob in terms of growth and upside, the only thing that's been embedded in getting us from 2018 all the way here is simply the compounding and adding component of the Transformation Plan. There is no further growth yet reflected in these numbers. And so on the right hand side of slide 7, you'll see the potential upside, both Retail and Generation. Elizabeth talked about the 2% to 4% mass market Retail growth and Rob's asset-backed demand response, that represents upside beyond that, which is already shown in the plan to get you to 2022. And obviously as Chris told you, our Generation portfolio is well positioned giving those improvement in fundamentals. So we see above and beyond what's embedded and what took us, what we use to get to that 2022 number, $50 million to $75 million in annual free cash flow before growth, not reflected in the numbers that I used to get there.

Now I'd like to turn for a minute or two to our capital structure and corporate credit ratings. And I'm going to go through three things here. One, I'm going to talk qualitatively on the left side of the slide, a little bit about our thinking behind why we feel very confident that that 3 times net debt-to-adjusted EBITDA ratio is appropriate for our business. Then I'll turn to 2018 to reaffirm and show you that we are in line with our 3 times target and then take that forward to 2020. But let's start on the left side of the slide with the target credit ratio.

As I said before it's the first priority for excess cash. The reason we target that is consistent with a strong BB credit rating. That is important to us because it strikes the right balance in optimal return and access to capital. We don't want to drift too far down in the BB range, certainly not down into B, because even though we're in the middle of a pretty long bubble in terms of the high yield markets those bubbles don't last forever, and cycles tend to be more volatile as you move down below the BB line. We don't want to be there. We want to be able to refinance that debt when it comes due. And it also gives us reasonable access to attractively price capital.

Importantly, and this bears repeating not only in the context of understanding EBITDA as a valuation metric and looking at that through the translation factor into free cash flow, it's also important to understand that it informs why we feel that 3 times ratio is appropriate. Pro-forma for the transformation plan $0.70 of every $1 of EBITDA converts to free cash flow. And the way that I think about that is through the lens of our 3 times target ratio. If you thought about a hypothetical another competitor in the industry, if you will, that was converting, let's say, $0.50 of every $1, right. That 3 times ratio that we have through the lens of 70% – or $0.70 of every $1 means that we are 1.4 times more efficient in converting EBITDA to free cash flow. So if you want to convert that 3 times net debt ratio into what that means in the context of a generator or an integrated generator converting $0.50 of every $1 that's more like a little more than 2 times on an apples-to-apples basis, again view through the equalizing factor on cash because cash is what you can spend, cash is what serves the debt.

Now, the other way that we think about that is through two other perspectives. The first is maturity coverage, as I like to call it and interest coverage. So let's talk about maturity coverage. If you look at that annual free cash flow that $1.3 billion. And also you'll find in the appendix I've updated a maturity schedule for all of our unsecured maturities over time and you'll find that each of those unsecured maturities is less than our annual excess free cash flow generation. And so just for illustrative purposes, not that we plan on that being the case, but if we didn't like where the market was on refinancing, it is close if the excess cash we generate in that year, we can more than pay off that maturity if we chose to do so. That's illustrative.

Second, on the interest side of the leverage coin $1.3 billion of free cash flow before growth that's obviously after interest expense. So I add that back with $380 million of cash interest we have on a pro forma basis that over the – that's basically unlevered cash flow, we want to think about it that way, that over the $380 million of cash interest we have annual that's more than 4.5 times interest coverage. So all of these things factor into our thinking as to why that 3 times ratio is important. That as you've probably heard me before we don't treat – and Mauricio alluded to this as well, we do not treat our credit ratio target as a set it and forget it, right. We always consider that in context. But in the current context, just to repeat, we are very confident that that 3 times net debt to EBITDA ratio is appropriate for our business.

Now let's turn to the right side of the slide for a moment and I'm going to start with 2018 on slide 8. Now as I said, when I updated the guidance or I reaffirmed the guidance, everything that you're looking at on the 2018 column is exactly the same as you saw last time with only two exceptions. One, I've circled in red. The cash reserve is now $1.065 billion having released $135 million of that pro forma for XOOM. And since we're talking about XOOM, I've added the XOOM interest on a prospective basis pro forma that $45 million. Making those two changes confirms that the ratio pro forma corporate net debt and recourse EBITDA in this case is exactly three times. And again that cash on the balance sheet is just the sum of the $500 million minimum cash and the cash reserve. It does not include the excess capital available for allocation of that $668 million in 2018. And as Mauricio probably said, it's because we see that the last place we should have that excess cash is parked on the balance sheet earnings zero. It should be allocated.

Now let's move forward from left to right to 2020. So the first change as we move forward in 2018 and you can see there depicted we deduct the Midwest Gen and Ivanpah EBITDA from our reported EBITDA and simply add back the cash flow. In the context of Midwest Generation that is deducting $125 million of EBITDA, this is in 2018 and simply adding back $45 million of cash flow. The difference between those two things is primarily the fact that we're paying off the counterparty that we monetized our 2018 revenues from [ph] capacity end (03:28:34).

When we get to 2020, that capacity deal is in the rearview mirror. So it's no longer necessary to deduct the $140 million – $125 million of Midwest Gen and replace it with the $45 million, all right. That is the only difference. So when we move forward prospectively, importantly as I went through before, we have the line of sight of complete release of that cash reserve of $165 million. That's why it goes to zero. So the only cash in the net debt calculation in 2020 is the minimum cash that through our pro-forma EBITDA in 2020, again implies that realignment with our 3 times ratio. And again importantly, that $500 million is just minimum cash. It does not include the $4.347 billion in excess cash prospectively through 2020. And that you can see in the lower right hand side of slide 8.

So, I'll begin where I began – I'll end where I began rather and that is with my three key takeaways. But adding to that as I've walked you through as you've heard from Mauricio earlier, we're giving you a walk to show, how we see that implied cumulative excess cash growing to over 80% of our market cap by 2022.

Second, our 2018 and 2020 ratios are in line with our target of three times. And we've completely released the reserve cash from 2018 by 2020. And third, as I said at the outset, most importantly when it comes to capital allocation, we will apply the discipline that has been articulated a number of times today in thinking as owners, thinking as investors, allocating your capital the way we would if it was our own. We are simply stewards of your capital. And I am optimistic not only in our ability to achieve through execution the components of the Transformation Plan, I'm equally optimistic about our ability to adhere to those capital allocation principles. Because I have the luxury as the CFO of not worrying that is the only office about where those two things reside. I have colleagues and a leader upon which to rely and I can tell you unequivocally that we are all collectively as a team committed to those principles both of execution and prudent capital allocation.

And with that, I thank you for your time and for your attention and your interest in NRG.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, please welcome back Kevin Cole.

Kevin L. Cole
Senior Vice President, Investor Relations, NRG Energy, Inc.

A

Thank you. All right. So we'll move into the Q&A session right now for 45 minutes looks like. We're going to end sharply at 01:00 because I know that some folks have flights to catch, so I'd like to welcome management to stage as well.

[ph] While it's getting set up (03:31:45), I should – I know most people know me in the room, I just want to make sure everybody knows Lindsey Puchyr who is number two on the team, who many of you are getting to know very well. Lindsey, can you stand up? So great, so this will be a normal Q&A. So we have – we do have a webcast and so we will, so please do wait for the microphones. We have two mic runners running around, and so I'll go ahead and start off on this side of the room then work back over here and go back and forth. So question number one, Julien, and I saw Stephen Byrd with his hand up for number two.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Congratulations again for all team. So – and again, Julien Dumoulin-Smith, BAML. Just wanted to [ph] follow-up (03:32:29) – first on the mark-to-market, I think this is sort of a glaring question, just wanted to level set a little bit on the – what you're reflecting in the numbers I think I know, but I just want to make sure. And how are you thinking about the mark-to-market impact not just on 2018 but 2019 and 2020 given the moves in the commodity curves in recent months if you can comment there? And perhaps secondarily on the 2020 and beyond, you showed a flat number, can you talk about and maybe that was just illustrative, but some of the puts and takes as you think about Generation against Retail?

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

So, let me just give you the general framework, then perhaps Chris and Kirk can provide additional color, but the way you need to think about our numbers is everything is pro forma based on 2018 guidance. So, you just have to look at the price of power on the chart that we presented to you with the summer of 2018, 2019 and 2020. And just think where the power prices were in during the Q4 2017, roughly about $80 per megawatt hour. So you're seeing now 2018, some are going to the $150 and then 2019 $110. And so, when you think about the potential upside, you have to put that in context of that our numbers were based on that 2018 guidance.

And as you move forward through 2020 and 2022, that's the basis of that pro forma number. So, is there any movements in terms of commodity prices what you referred, Julien, as mark-to-market, that will be upside for the company and I mean, Chris can talk a little bit more about where we are in terms of hedging and Kirk can even put more granular on the pro forma for 2020 and 2022. Chris?

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc.

A

In terms of hedges, we've got, I think, there's a sensitivity slide in the back our normal hedging disclosure and you'll see that we're pretty wide open in 2019 and 2020. I mean, we had an idea that this might be coming at some point and it's gone our way.

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

So the only thing I'd add to that is, as Mauricio alluded to, when we first established our guidance for 2018, which obviously forms the basis of the pro forma [indiscernible] (03:34:47) move forward as was in 2017 as it has been in every year, we do that in – actually on our third quarter call in November. And that's based on where the market curves at the time specifically for 2018. I think, as Mauricio said around $80, I think, the exact price was actually in the high-70s and when I say high-70s I'm talking about summer power like that 700 hours it's the Christmas season in the summer when it comes to [ph] our guide (03:35:13). And this is going to be a little counterintuitive, so I'll try to explain this the way that I think about it, the way to look at that number. That is the number that the 2018 guidance is originally based on. That's a number implicitly the midpoint of the 2018 guidance is based upon that high-70s.

If you look at where 2020 is today, you find it in the low-90s. So if you'll forgive me, let's say – let's call that $15 dollars a megawatt hour of contango, if you will, as you move from the basis of what the 2018 guidance midpoint is based on to where 2020 looks prospectively today. And plus minus, I think that indicates that relative to the basis of the pro forma this is what you see in summer 2020. There is upside. All right, and you can quantify that through $700 and 6 gigs of generation and you find there's a decent eight figures upside behind that. And you wouldn't be wrong in assuming that.

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Yeah. And I would say six weeks – so 6 gigawatt is a little bit more because the summer just about everything at $120 [ph] is in their (03:36:18) money. So you need to think about 11,000 gigawatt.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

And in fact maybe to just follow-up and make sure I heard you right, you don't intend to update guidance 1Q or 2Q, you're going to wait till after summer to look at guidance and pro-forma?

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

I think with respect to 1Q highly unlikely, I wouldn't foreclose the possibility we may provide an update in the second quarter, but I'm a believer, and Mauricio and I talk about this all the time. It's a little early in the year to come to that, we haven't even gotten into the warm weather months as – so wearing my overcoat in the Northeast, but as we move forward, I wouldn't foreclose the possibility I'm not guaranteeing we will that we would update guidance, but certainly I would not expect it on the first quarter call.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Got it. And Mauricio just a follow-up on some of the comments, again, maybe looking at Kirk as well, but obviously we talked about dividend a little bit at the end there, but sort of curious, I mean, how do you think about that over time eventually getting to a "better place", how do you think about maybe a capital framework, if you will, between buybacks versus dividends down the line?

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Well, first is, having line of sight in achieving our 3 times net debt to EBITDA and now that we have the asset sales behind us and that we have line of sight to achieve the 3 times by the end of the year then we can start thinking about how to allocate the excess capital and given the undervaluation of our stock price, that's where our focus is going to be. We want to make sure that our stock price reflects the value of the Transformation Plan and the value proposition that we have as a company.

Now after that happens, obviously, we're going to be monitoring in parallel potential opportunities that meet our hurdle rates and significantly or significantly exceeds them, but we have to look at them in an absolute and a relative basis. On an absolute basis, it needs to meet the 12% to 15% hurdle rate. On a relative basis, it needs to be a compelling investment vis-à-vis where are the returns on our stock price is. And then and only then we can actually talk about the dividend policy, I mean, it's a little bit putting the horse before the cart. We need to just – or the cart before the horse, yeah, the cart before the horse. So that's when we just need to know, that's when we'll evaluate.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Kevin L. Cole
Senior Vice President, Investor Relations, NRG Energy, Inc.

A

Thank you. Stephen, just right to here, that way. Okay. There. And after that Greg Gordon.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Thanks a lot for the very thorough presentations. I wanted to go back to rebalancing Retail and Generation and you spoke about this quite a bit, but I'm trying to sort of summarize and think at a high level, especially in the East in terms of the rebalancing of Retail and Generation. How should I think about that in terms of specifically what would that imply in terms of how our rebalance would look. I'm just trying to get my arms around how that might play out.

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc.

A

So I think job number one is grow Retail in the East, right, because you can either reduce Generation or grow Retail. And I think XOOM is a step in that direction, which to my understanding adds a nice tool in terms of the – how do we call it, referral? Yeah, to the referral business that we weren't particularly strong in before. So I think that adds not only a book of business but also the tool for Elizabeth and her team to work with.

In terms of the Generation on that side, I mean, we're in a good position, we've got good capacity plays right there, so we're in no rush to get rid of any of that because it's been working well for us there. So if we could grow Retail in the East that would be the best way to go and expand that way.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC Q

And do you see opportunities to grow in terms of Retail acquisitions, is this a target rich environment or is it becoming more challenging to find opportunities in the East.

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc. A

Yeah. Stephen, well, first, as you know we don't comment on M&A. But what I will tell you is, perhaps we're seeing more attractive opportunities in the Retail space than we see in the Generation space, particularly that meet our investment hurdle rates. But we're going to continue monitoring and the only thing that I will say is, when you see the type of volatility that we're seeing – that we are expecting to see in Texas this summer or that we saw even in January and February, retailers that didn't hedge correctly become vulnerable and that's where we can be opportunistic. So I can't tell you right now how many opportunities there are and even if I knew I wouldn't tell you the opportunities. But it seems to me that it's starting to become a richer environment than in the past.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC Q

Good. Maybe just one last question just on the PJM reform process, power price reform, I'm thinking, maybe Chris, just if you could speak a little bit more process wise in terms of how that might play out, this is something we sort of watch, but it's hard to figure out exactly how this will play out?

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc. A

No, that's fair. I would say that the fast start docket, I think we've got a good chance that at the FERC ordering something September, October kind of timeframe that they would have to respond to, I think, PJM has already put in their response and now we have opportunity to chime in and make comments of our own, and then work its way through, and then I think FERC be ready to say something kind of back half of the year sometime in the fall.

In terms of the longer piece which is just the energy price reforms that they're talking about there that is going to work its way through the stakeholder process through this year, which – it should be – it's going to take some dealing to get it through there, I mean, the stakeholder process is an onerous one at best. There is always the opportunity that FERC short circuits that a bit comes out and gives PJM and other ISOs a homework assignment so to speak, and honestly I think that would be PJM's preference to be honest, but I can't tell you whether FERC is going to do that or not, but I think there is a relatively distinct timeline for the fast-start piece, and then for the longer – the overarching piece, I think, it will work through the stakeholder process and/or FERC may circumvent.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC Q

Thank you.

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.
A

But all these market reforms, I'm just trying to have greater reliability, greater resiliency and higher compensation, which impact – which has a positive impact to our fleet. So...

Kevin L. Cole
Senior Vice President, Investor Relations, NRG Energy, Inc.
A

Greg, and then we have Steve Fleishman.

Greg Gordon
Analyst, Evercore ISI
Q

Thanks. So to the extent – Kirk, to the extent that your position for this summer and the mark-to-market looks favorable going into 2019, and we're able to actually bring that into the P&L, [ph] do we (03:43:01) assume you're going to use that cash flow upside versus the pro forma here, use the same discipline you've used – that you're going to use on the existing cash flow roll in terms of cash deployment, extensively it increases the $4.34 billion and you'd measure the redeployment of that capital exactly the same way as the current forecast?

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.
A

When it comes to ...

Greg Gordon
Analyst, Evercore ISI
Q

What you...

[indiscernible] (03:43:23)

Greg Gordon
Analyst, Evercore ISI
Q

...what are you going to do with the upside if you capture it?

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.
A

Yeah. I mean, I think Chris was prompting me with the same pointer there. I think, if I understand what you're asking is, as we generate potentially additional capital above and beyond that, will that incremental potential capital be allocated with the same principles? Yes, absolutely. But I wasn't 100% sure if that was all you're asking, Greg, sorry.

Greg Gordon
Analyst, Evercore ISI
Q

That was exactly...

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc. A

It was. No question. Yes.

Greg Gordon
Analyst, Evercore ISI Q

Okay. Thank you. And then the second question is, if we do see this march up in pricing in ERCOT, I think, there's a fear that it'll just be sort of taken out of Retail margin, and yet you show going back as far as 2011 that you've been able to sustain Retail margins through all different types of power market cycles, is there sort of a assumption baked into your total portfolio sensitivities that if prices do continue to increase that there is a Retail margin offset or do you believe that you can sustain margins in the face of that sort of that tightening market condition in....

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc. A

Well, so first, let me talk about the sensitivities that we have disclosed. So, the sensitivities are just for the Generation portfolio. It does not include sensitivities on Retail. And what I've said on the presentation is when you look out one year out, your margins are pretty stable regardless of whether prices move up or down because all retailers are exposed to the same commodity price.

In the prompt year, we managed the business, our fixed price [ph] now (03:45:02) has hedges behind it, so we're not exposed to that, it's really some of the month-on-month. So, as prices go up, we see some margin compression and as prices goes down, we see some margin expansion. We haven't provided that the range of outcomes for our Retail business, but the way we're positioned right now for this summer I am very, very comfortable, you just have to look at the disclosures that we have made in terms of our hedging, we're only 70% hedged on our fleet – our total fleet. So we have actually positioned ourselves very, very well for this summer. I'm very comfortable.

Kevin L. Cole
Senior Vice President, Investor Relations, NRG Energy, Inc. A

So, head to Steve, and then Angie.

Steve Fleishman
Analyst, Wolfe Research LLC Q

Yeah. I guess, question on the Retail businesses both mass and the business level, C&I level just – could you just talk about the competitive dynamic that you're seeing each of you in the business? And I guess, also just when we're looking separately on the margin enhancements kind of – how are you able to – are you going to be able to track how you're progressing on each of these different initiatives and give us updates as the year goes on like how you are going to be able to tell how much is coming from each piece versus the core business? Is it that traceable so to speak, because some of these things sound a little bit like each other?

Elizabeth R. Killinger
Executive Vice President, NRG Retail, NRG Energy, Inc. A

Sure. So, I can start with the Mass field. And let's start with Texas, fiercely competitive and has been for years. We aren't noticing a material change in the number of competitors, the tools they're using, where we see them in market, what offers they have. So, I would say I don't see any shift in the competitive field. In the East, same thing, generally the same players. From time to time, you'll see a new player pop up and as I mentioned earlier in the Mass side of business there are 30 to 50 retailers, 50 plus in Texas in the different East markets. I think the last time I looked it was as low as 20, but it's a robust field. So, we're fighting every day to win the customers, retain the ones we have and that's what fuels our innovation and the value that we're creating customers, because we can't take any one of them for granted.

And so, as you've seen from my conversation, we have success in maintaining a portfolio. On your question about will we divvy up our margin enhancement earnings by initiative, that's not our intention. We'll intend to give you updates on our progress with the transformation scorecard that you've seen already in the cost savings and margin enhancements, so we'll give you updates along the way that way.

Mauricio Gutierrez A
President, Chief Executive Officer & Director, NRG Energy, Inc.

Rob, [indiscernible] (03:47:46)

Robert J. Gaudette A
Senior Vice President, NRG Business Solutions, NRG Energy, Inc.

Yeah, so on the business side, the competition is basically the same except I think out a couple of years, right the C&I business doesn't lock up for the summer, the next 12 months, it's typically you two years or three years, in some cases even longer. As far as my competitors and what they're doing, as far as if you think about the slide with traditional supply versus structure, traditional is the market you're talking about right, where it's extremely competitive, people are definitely driving to try to get to the best price and win the deals. We're competing there and we're making investments to make sure that we can get through that quickly and not spend a lot of time on trying to win those deals.

But the real investment and the part that I talked about is moving those guys over. So you kind of start offering things where there isn't competition, right, if it's just megawatt against megawatt then that competition is painful. We're trying to transfer the business a little bit.

Mauricio Gutierrez A
President, Chief Executive Officer & Director, NRG Energy, Inc.

And just let me say something about the track, because I mean this is an integral part of the transformation plan. First of all, we have a team, a dedicated team inside the organization that is looking at tracking every single number on our transformation plan. They report to the financial and the risk management committee. We report on a quarterly basis to the board, so we have very clear baselines.

By the time it makes it to all of you, so all of you on our scorecard, we actually have already had a very deep conversation with our board both in the [indiscernible] (03:49:18) and at the full board level. So I'm very comfortable when we actually report the numbers to you, we're just very, very, very confident of them and the baseline is very clear. So you're going to be able to see it.

Steve Fleishman Q
Analyst, Wolfe Research LLC

I just have one other quick question. I guess maybe more strategic. So, if you – it seems like at least XOOM so far is the only investment that match your metrics and maybe more likely Retail also in the future. Just do you have a kind of view on how much the business mix you're willing to go Retail versus Generation; is it dollars or is it more kind of matching megawatts in terms of just making sure you don't get two at a line there or how you are thinking about that?

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Yeah, I mean, I think, Steve the way you need to think about our business model, it starts with the customer. I mean we know that we have a very balanced portfolio in Texas. I'm very comfortable with our Generation and our Retail mix. But when you move to the Northeast, our Generation is significantly larger than our Retail. So, we need to start perfecting the model. We need to move our Retail. Like I said either we move the Retail business, we grow the Retail business or we use the Generation, while we have chosen to, because we have found good opportunities. We're moving up our Retail business. But in the future, you need to think about the customer demand, the customer load is going to drive everything else across the organization. The way we set up our Generation portfolio, the way we're organized internally, the way we're integrating more Generation and Retail. So, that's how you should be thinking about that.

And Steve, I mean I think you can also see the potential for growth. We tried to put that in perspective in terms of what can happen in Texas that we have a dominant market share market. Market – Texas is growing. The East will be more of – it's an insurgent is gaining market share from incumbent utilities.

Kevin L. Cole
Senior Vice President, Investor Relations, NRG Energy, Inc.

A

[indiscernible] (03:51:31) Angie and then Abe.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Thank you. So, slide 17 of Chris' presentation, the match of Retail and Generation efforts in Texas. So, what is maximum load, is that what you expect for 2018 and how should I think about it. You have a 2% load growth in Texas. It seems like you are already fully matched versus your Generation capabilities. I understand that you have done well in in 2011 when you had similar volatility in power prices in Texas, but you have had some assets impacted by Hurricane Harvey, you have some potential [indiscernible] (03:52:20) on the back of the drought that we're seeing starting in Texas, you don't really have much of a combined cycle gas plant capabilities in Texas in case there is upsize load. I mean how should I think about the growth in the Retail business in Texas given that you're already fully matched and there could be some performance issues with your Generation assets?

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc.

A

So the way to think about that is we have a layered approach to it. Let's take the hurricane first. Greens Bayou, the Jets are the ones that got most damaged by the hurricane. They're on their way back there where [indiscernible] (03:53:00) any outage now they will be by all intents – I expect them to be back well before summer. So that piece is under control. In terms of drought impacts, we aren't foreseeing any problems as we sit here today. If it didn't rain from now until August that might be a different situation. But right now we're not forecasting any problems.

We looked at a few years ago, two or three years ago it was where there was a prolonged drought. We didn't – we made it through that without any problems and that was a year or two long. So I think we're okay to get through this summer, at the very least, with what we have on that perspective. In terms of how we match up in Texas, we've got the – so the 11,500 megawatts we've got in Texas, you need to take about a thousand 1,000 megawatts off of that because the 1,000 megawatts is the Cottonwood portion, right, which is technically in Texas but not in ERCOT, right.

So you're looking at 10 and change then compared to the load of 12 and change give or take on this sheet. So we've got market purchases because as we mentioned before, that we have – when we're talking about fixed price load we try and match that, we either measure that internally or buy it from the market to cover it. We don't go into fixed price load short. And so, we've got plenty of purchases against that.

In terms of having – and now Angie brings up a good point which is that, hey, when it push comes to shove, what counts is the megawatts that show up on the $9,000 hour, right. And I can't guarantee that every megawatt is going to show up on the $9,000 hour. So we've gone out and gotten some protection in terms of outage insurance for both base load and gas as well.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

I know but going forward, right, that load growth in your Generation is already in a way fully tapped out. So, what's...

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc.

A

Sure. So, the – and I don't remember which page it is, but on the right-hand side of the page, there is the list of five or six different moving pieces, including buying block, buying [ph] shape (03:54:59) from the market.

And keep in mind, if we're signing load out in the future and we're competing with all the other retailers out there, the price of the load is an input. It's not – right, I mean everyone just adds the margin to it, maybe it gets compressed a little bit, maybe it doesn't, but if we're talking about 2019, 2020, 2021, we don't have a ton of fixed price load out there for – on the retail supply and especially not on the residential side.

So the expectation would be that the vast majority, if not all of that, would be able to be priced through. So, we can buy against that. As I mentioned I think there is a pretty big, you make the point we don't have a lot of combined cycles, actually speaking that's absolutely true, right. We have half of [indiscernible] (03:55:40), we have a partner on that. But as we go forward there is certainly a ton of combined cycles out there in the market which we've been buying output from them for quite some time.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. And just quick question to Kirk, so that 3 times net debt to EBITDA, you are shifting your business mix towards more Retail. We can argue what the percentage will be. That's just not the type of business that historically carried a lot of debt, and then there is a technological change happening in the generation industry. Why should there be – why is 3 times a good number? Why shouldn't it be more as a say refining industry which is more cyclical so 2 or less than 2?

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

Okay. So this is where I'll go back to what I was talking about before. And I mentioned in my example a hypothetical generator. So if you go out and look at the refiners for example at two times, and again, that two times is importantly net debt-to-EBITDA, EBITDA is in the denominator. If you look at the average refiner out there in terms of cash flow conversion, right, that's probably around half or a little more than half of our 70% ratio.

So calibrating that, right, are three and again I'm just saying this for illustrative arithmetic purposes. If we doubled the cash flow from EBITDA to free cash flow, then a refiner that's at two or three apples-to-apples is closer to two, if not below two at the end of the day. So that's part of what goes into that thinking. Now, I didn't refer directly to refiners in that comparative math. I stayed in the industry. But since you mentioned it, that's part of what goes into our thinking, those are even less efficient than that 50% ratio I mentioned in the hypothetical Generation scenario.

Kevin L. Cole
Senior Vice President, Investor Relations, NRG Energy, Inc. — A

So next we'll do Abe, Ali and then Michael.

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc. — Q

Thank you. Is the Retail penetration rate in the East region, is that growing over time, or is that kind of a static number?

Elizabeth R. Killinger
Executive Vice President, NRG Retail, NRG Energy, Inc. — A

It's been relatively steady over the years, I mean, we'll have times when it will increase and times when it will decrease, but there hasn't been a marked change in the number of people choosing to purchase from a compatible electric provider in aggregate across the region we operate.

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc. — A

Except in Pennsylvania, which we have actually added...

Elizabeth R. Killinger
Executive Vice President, NRG Retail, NRG Energy, Inc. — A

Well, that's a different question, which is we're growing our share, but the total population actually in Pennsylvania during some of this timeframe shrunk, and yet, we were growing share, so I didn't highlight that but...

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc. — Q

And then some of the bigger opportunities you show in Retail is Florida and Virginia. Can you run a Retail business there without owning Generation in those kind of states or think about that?

Elizabeth R. Killinger
Executive Vice President, NRG Retail, NRG Energy, Inc. — A

Well, I would say the conversation I had around the opening markets was really just the potential for future growth. Obviously, when the market unfolds, we would determine the winning strategy for how we tackle the market and it would be based on what our growth expectations were, how much risk we thought we had, what our options were. And really the way to think about is we can either build, buy or partner with somebody to fulfill on the commitments to customers and we would evaluate that as – yeah, we've got plenty of time to think that through as long as we...

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

Elizabeth – and it's a fair distinction that you are implicitly drawing there is that aspiration or potential for markets going competitive was meant to be sort of out over the horizon....

Elizabeth R. Killinger
Executive Vice President, NRG Retail, NRG Energy, Inc.

A

Absolutely.

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

that was not part of what she qualified in terms of potential upside in terms of EBITDA.

Elizabeth R. Killinger
Executive Vice President, NRG Retail, NRG Energy, Inc.

A

Correct. That's – think 2021 and beyond as possibilities, none of that's based in, any numbers that I referenced as far as directional numbers do not assume new market openings.

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc.

Q

And then during the transformation plan announcement from the summer, you mentioned selling 6 gigawatts of conventional assets. I think we sold about 4-ish so far. Can you talk about maybe where the focus is? Is it going to continue or is it – you almost hit the proceeds target without making the megawatt target.

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

So, we actually disclose [indiscernible] (04:00:00) sale, we purposely didn't disclose the other assets, they are moving along in the schedule that we have. At this point just for competitive reasons and to create the right competitive attention, we are not disclosing which other assets we are in the market, but it's fair to say that we still have some processes ongoing, and we will update you as they develop. But there are still some pending asset sales that we're working on.

Kevin L. Cole
Senior Vice President, Investor Relations, NRG Energy, Inc.

A

And Ali right there?

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. Kirk, I wanted to clarify a point you had made earlier, when we look at the movement in the forward commodity curves, they've moved up, but the backwardation is still there. So if I follow the logic right, what you're implying is that the pro forma 2018 starting point would be much higher than the 1.6% using the November numbers, but because of the backwardation if that stays, some of the benefits of margin enhancement probably get subtracted if prices stay where they are. Is that a fair way to think about this?

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

Let me clarify that. What's important is what was behind that 1.6%, right. That's the midpoint of our EBITDA. And then what I was referring to before is that gets established commensurate with when we initiate that guidance. We initiated that at November, that's based on where the prevailing prices in ERCOT were at that time.

There was actually contango between the basis on which – and I'm always referring to summer as I talked about the Christmas season before, there is contango between the summer price in 2018 that's 1.6% is based upon, and where 2020 is trading today. All right. That's where – I went with that. Hey, you're in the low 90s in 2020 summer today, when we first established that guidance – and we don't talk about where we are in the range or anything else – but what's important is, since we're using the midpoint of our range that was based upon a summer price that was in the high 70s at the time from a comparative standpoint based on what 2020 currently implies versus what implicitly that 1.6% is based upon. There is contango, specifically high 70s summer going into 2020 or going to low 90s in 2020. Does that helps?

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

I get that point being that whenever we benchmark off 2018, which is higher than 1.6%, that's very obvious. The fact is that there is still backwardation. So, from that higher base.,,

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

Fair point. So, if you're running your mark-to-market math through the 150 that Chris was talking about in summer 2018, no question, 150 is significantly higher than 92. I'm simply referring to in the context of what that 1.6% is based upon.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got it.

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

Yeah.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

And Mauricio, a question for you as you've mapped out this excess cash picture for us? And by 2020 and beyond, it's almost, as you said 80% plus of your market cap, so when you think about this business long-term when the dust is settled and all the assets are sold, et cetera, do you think that the public market sponsorship will still be very strong for this kind of model? A lot of your competitors have gone private. You've got the cash. So do you think private given the cash flow and profile is probably a better place to be for a business of this sort?

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Yes. Well, I mean, first we need to create this excess cash and the other – the way we create this excess cash is by executing on the Transformation Plan that we have laid out. That's our priority number one. And we're going to continue to do that if and we expect that the stock price will reflect the fundamental value that we laid out from the Transformation Plan. If doesn't happen year or two years from now, then we can have a conversation about happen a year or two years from now, then, we can have a conversation about what are the options that we have as a company.

But right now, I mean we are like I said I mean it's a very compelling value proposition. We are executing on this value proposition, we want to demonstrate that value to you, we want that to be translated into our stock price, and that's our priority. Anything else, I don't want to speculate in terms of whether the long-term is a different business model or not, I mean right now this works for us, and we're just focused on executing them.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Kevin L. Cole
Senior Vice President, Investor Relations, NRG Energy, Inc.

A

To you Michael, and then, Jeff Kramer.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Thanks. Michael Weinstein from Credit Suisse. Elizabeth, could you talk about what it is about XOOM that made it so attractive, versus other potential retailer acquisitions. You mentioned this is a referral business. Is that a guessing that's a low cost of that customer acquisition and is this a higher growth type of business than other retailers?

Elizabeth R. Killinger
Executive Vice President, NRG Retail, NRG Energy, Inc.

A

So, I would start with what attracted us to the business, it's two primary things. First, it was largely an East portfolio and so that as we talked quite a bit about the opportunity it creates for us to balance our portfolio. Second, they have a unique go-to-market strategy. Having the whole friends and family purchase channel is not something we've historically had access to. So, that made it very interesting and compelling, and the way in which XOOM attacks that market is also unique. So, XOOM is a retailer, so their core competencies are the same as ours and then they have a partnership. And so, with this acquisition, we will have exclusive access to that channel and we're confident that it can deliver the $45 million in recurring EBITDA that we've signed up for. As we get into it, it also has some access to other markets and the potential to grow and so definitely will consider that. But right now we're thinking about it as let's do the integration. As you guys who have followed us for a while know, we've done quite a few integrations and we were pretty good at it. And so, we have a model, a cookbook that we go through and we just execute it. Our first priority is to do that and then we'll see where that takes us from there.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

And, Robert, we talked a little bit during the break about various forms of behind-the-meter generation. I'm just wondering if maybe we could just talk a little bit more about what are the C&I customers looking for when they for behind-the-meter generation? So how big a growth part of the C&I business is this and is this going to have an impact on the overall business at some point and where the batteries fit into that?

Robert J. Gaudette
Senior Vice President, NRG Business Solutions, NRG Energy, Inc.

A

Yeah, so I hope it has an impact on the business overall. We're pretty excited about the opportunity. The thing that I would tell you or mention about this particular product is it's driven by a couple of things. In the world where customers are being hit with distribution charges and capacity charges and energy charges across kind of the spectrum when you have steel behind-the-meter, you have an ability to manage that depending on the market you're in, but particularly in the Northeast.

A big driving factor is resiliency and reliability, right, and that comes in two forms. One, my customers want power when things happen and we've seen it here with blizzards, we've seen it in Texas with flooding, we've seen storms all over the place and those tend to be increasing. They want power. So that's the first step.

The second step is now their customers are expecting they have power. Like it's not acceptable for I don't care what the storm is. If you can't sell me milk, there's a problem and there's a problem with you. And so, our customers are now feeling obligated to go find resiliency. The product that I went through and kind of the format and the partnership with Cummins gets that to a place that's actually economic and makes sense for the customer, it makes certain sense for us as investors and ultimately works for the market, because it provides a bunch of extra services beyond just sitting there.

So we're in a world where and by harnessing kind of the commercial acumen, we no longer have parked steel sitting behind people's buildings. We're now using that to actually deal with the interactions and the evolution inside the market and those market contracts are creating ways to actually make that economic. So I think it's a great product. Every customer we talk to that wants resiliency, they would love to find a way to make that cost lower and by putting them into the market [indiscernible] (04:08:39). Does that answer your question?

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah, I mean it...

Robert J. Gaudette
Senior Vice President, NRG Business Solutions, NRG Energy, Inc.

A

Oh, and the batteries.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Well, and also I mean it sounds like it's a play for – it sounds like you're a great spokesman for distributed generation over central station just from reliability standpoint, right, especially if you have access to capacity markets or some kind of managed market situation where you can enhance revenues.

Robert J. Gaudette
Senior Vice President, NRG Business Solutions, NRG Energy, Inc.

A

Right. So I think that as markets evolve, you're going to see opportunities depending on what market you're in for more distributed generation. And from a resiliency perspective or reliability perspective nothing beats having the generator on your site, right.

Just to attack the battery question and then I'll stop. The way we think about all behind-the-meter technology, we're building relationship with the customer, right. So I talked a lot about the ways that we're interacting with it, the ways we're trying to amp up that experience, the way we're trying to actually expand the tenor of our conversation with customers. The way I look at distributed generation today and the Cummins partnership today is we're building that relationship and we're creating value for the customer and for us and the market as battery technology advances, as prices come down, as it makes sense, then we already have that relationship and we can put that into the mix. So I see that as a positive, but I see that out in time, not something that we're going to do without some kind of utility-based program anytime soon with the customer.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks.

Jeff Kramer
Financial Advisor, Morgan Stanley

Q

Jeff Kramer with Morgan Stanley. Just to revisit the match between wholesale and retail. Chris, you had a couple of slides that showed in the East [ph] your longer generation in your retail (04:10:26) and Texas [ph] is shorter generation in your retail (04:10:27). There are some megawatts for sale somewhere in the country. I guess just how do you define being well-matched? What is the metric? How should we think about that as we think about the portfolio over time?

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc.

A

I think that it's a comfort factor, right. I mean, I wouldn't want to be short 10,000 megawatts in ERCOT the next couple of years, but being 1,000 megawatts or 2,000 megawatts short is probably is oaky, because the market is there for that. And then in the East, I feel very comfortable with the position there, because it allows [ph] Elizabeth (04:11:02) a lot of room to grow, but in the meantime, we have some great capacity markets that are working for us that way. So that's the way I think of it anyway. So I don't know...

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

Yeah. But just let me amplify a little bit, because the way I think we show the balance was the economic generation versus our [ph] retail (04:11:18), and clearly there you can see that there is – we have a short position and we actually have been able to feel that short position from the market at very, very attractive economics. I mean, for the past seven years, Texas, if you look at where you actually buy the combined cycle economics, it's under $400 per kilowatt. Why wouldn't we do that? Why build it if you can actually buy from the market? What makes it different is the nameplate capacity. So when things go above $80, $90, all our generation becomes in the money. So you can't think about economic generation at that point. You have to think about the backstop of our entire generation portfolio, which is 11,000 network. So that's where I think – I mean, that is what the [ph] commercial operations team does. They find base low (04:12:03), they find peaking as a backstop and then they optimize the middle. And in Texas, it has worked out very, very well for us over the last couple of years. So I mean, I don't see any changes on that immediately. Obviously, we're always going to be optimizing our portfolio depending on how that customer demand looks. But I just wanted to make that clarification, because you made it sound like we're like super short in Texas and we're not.

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc.

A

So I think to the other question that he had, which was are we expected to be going out and buying any generation anytime soon? Right. That was, at least, he said there are a couple of portfolios available. I don't definitely...

Jeff Kramer
Financial Advisor, Morgan Stanley

Q

But just you guys are selling potentially more generation as well. But yeah, you go either way, but...

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

Yeah. I don't think that you'd see us – the hurdle rates that we've got are pretty darn high and it's tough enough to get it past our share price. And Elizabeth, I don't know that we'll see a lot of new gen acquisitions.

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Kirk, I agree.

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

Okay.

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc.

A

Well, plus we don't need it now. I mean, right now, we don't need to have more generation. We're very comfortable where we are in Texas and we're long in the East. So I mean, there is not the strategic need right now to be going out there and buying generation. But having said that, we're always going to be opportunistic. I mean, there is something that is dislocated that somehow it meets our financial hurdles then we're going to take a look at it. But again, like I said, it has to be on an absolute basis and on a relative basis to our [ph] stock price (04:13:39).

Jeff Kramer
Financial Advisor, Morgan Stanley

Q

Thanks. So just a follow-up for Kirk. I liked your slide where we had to look forward on your 3 times leverage metric 2018 to 2020. I assume that's the concept going forward as well 2019 and beyond. It's not just the 2019 look when you get to next year that you're going to be 3 times net before you allocate capital. It's also a two-year forward look that you'll be comfortable you'll still be 3 times, I guess the concern being allocate you allocate a lot of capital and share repurchases, markets change and suddenly that 3 times in two years could be higher. Is that the consideration? My guess just want to confirm that's the consideration?

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

And I'm hesitant to use this example because it doesn't belie a different point of view that we have today, but back in the past when you'd see us be under our self-imposed ratio that was an acknowledgement that the world doesn't end in the current year. So if you see us looking prospectively, it's simply designed to make sure that not only in the prompt year, but as we move forward we can maintain that 3 times ratio. And obviously in this context [ph] of taking always (04:14:41) 2020 on a pro forma basis and that actually constitutes a release of cash because we're building EBITDA from the Transformation Plan. But, yeah, we look at that ratio through the long-term on the cycle.

Jeff Kramer
Financial Advisor, Morgan Stanley

Q

Thank you.

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Sure.

Jeff Kramer
Financial Advisor, Morgan Stanley

Q

Assuming the M&A market in the East proved somewhat competitive given there is other competitors looking for the same strategy. At what point could we see incremental optimizations beyond the $200 million you already guide on the assets? So further asset sales shutdowns.

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

A

So we're already working on some asset sales we haven't provided any additional details. But we're always – we're going to be constantly looking [ph] at generation portfolio (04:15:32) both on selling assets and perfecting our business model. One thing that I – if you look you were talking about specifically about the Northeast. I mean if you look at where our Northeast generation with this is primarily on those pockets, but we acknowledged that we have a pretty sizeable position around the Chicago area. We did have some [indiscernible] (04:15:57) portfolio. So in an ideal world what we would like to see is moving some of those megawatts to where we are actually building our retail position.

So, we're always going to be evaluating that. But you know right now, I just don't see the opportunities to be buying the generation that meets our hurdle rates. I mean, I see those opportunities more on the retail space and which actually plays really well because that's what we want to grow right now in the East. But, just I think you mentioned that perhaps there may be a little bit more competition with others. I mean, we're going to remain absolutely disciplined when it comes to perfecting our business model, absolutely disciplined with our capital allocation. So, I hope that these transaction is just a clear example and demonstration of that discipline.

Q

Got it. And then just lastly as you look to build on your Retail sort of product offerings, is there a scenario where you can potentially get into origination agreements with NRG Yieldco especially in the Eastern is – as a natural extension of what you offer to the customers?

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Almost. So, on – can you repeat the question?

Q

Yeah, yeah. The question is, is there an opportunity to extend an origination agreement with NRG Yieldco especially as you build that your product offerings?

A

Oh! you mean NRG as an offtake...

Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Yeah. So, NRG I mean I think we'll look at anybody NRG Yieldco and other providers. I mean what this allows us to do is actually find the most cost competitive, most effective way to provide a solution for our customer. Now, we don't have it internally. I mean we don't have the vertical integration in some of the products and we actually – actually that opens the possibilities for us to have a conversation with somebody that has a better advantage in certain markets. So that basically opens I guess the spectrum of potential partnerships.

Kevin L. Cole

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

Right. It looks like we're out of time. Management will be available at front for Q&A afterwards, if you want to, for a couple minutes. And if Mauricio you want to do...

Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

Well, I just want to thank everybody for being here today for your interest in NRG. I hope that after today's presentation, you'll have a lot more understanding on the direction of the company and how we're going to get our transformation targets.

I'll just leave you with three things, and I think that's what I started within the presentation. First, we're moving towards an integrated model of Generation and Retail, but now with a lot more focus on our customers. Second is that this platform is going to generate stable and strong recurring free cash flows for the foreseeable future. And then finally, and I can't stress this enough, we're going to be absolute disciplined in executing on our capital allocation principles.

So, thank you again for coming here, and look forward to talk to you during the next earnings call.

Kevin L. Cole

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

Thank you.