03-Aug-2017

NRG Energy, Inc. (NRG)

Q2 2017 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

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

OTHER PARTICIPANTS

Greg Gordon
Analyst, Evercore ISI

Michael Lapides
Analyst, Goldman Sachs & Co.

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

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Neel Mitra
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NRG Energy Q2 2017 Earnings Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded.

I would now like to turn the conference over to Kevin Cole, Head of Investor Relations. You may begin.

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

Thank you, Takia. Good morning, and welcome to NRG Energy's second quarter 2017 earnings call. This morning's call will be 45 minutes, and being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

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

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

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

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

Thank you, Kevin, and good morning everyone. I'm joined this morning by Kirk Andrews, our Chief Financial Officer. Also on the call and available for questions, we have Chris Moser, Head of Operations; and Elizabeth Killinger, Head of our Retail business.

Just a few weeks ago, we announced our comprehensive and multi-dimensional transformation plan. Since then, we've had the opportunity to speak with many of you in great detail about our plan, which will better position us as the leader in the competitive power space.

We are actively engaged on all fronts, and I look forward to updating you on our hard work and progress in the next quarter. But for this call, we will keep our remarks brief and focus on our quarterly results. Also, you will know that all the financial and operational results discussed today do not include GenOn due to its bankruptcy filing.

Starting on slide 4 with the summary and highlights for the quarter. Today, we're reporting second quarter adjusted EBITDA of $685 million, in line with our second quarter results from last year and $240 million in consolidated free cash flow before growth. We are also reaffirming our full-year financial guidance for 2017 for both EBITDA and free cash flow.

Our integrated platform performed quite well during the quarter. Both Generation and Retail financial results were slightly lower given the mild weather experienced in the quarter and lower hedged prices. This was offset by strong results from Renewables, NRG Yield and the change in our Home Solar business model announced early in the year.

We also remain focused on execution and made significant progress on our key priorities. First, we continue to execute on our capital recycling program with NRG Yield. We completed one dropdown and made two separate offers that will further strengthen that partnership. We believe these transactions highlight the renewable platform stability to enhance Yield's growth going forward, with opportunities both inside and outside of the current ROFO Agreement.

Second, we announced our transformation plan, which laid out a much clear path of value for investors and will significantly strengthen and simplify our business, so that it will provide in many market cycles.

And finally, we made substantial progress towards resolving GenOn. We continued to work diligently with GenOn and its stakeholders through the bankruptcy process and can report that GenOn currently remains on track to emerge from bankruptcy by the year-end.

As you can see, it has been a busy several months, and I am extremely proud of all the hard work and focus that have gone into making this a strong quarter for our business.

Turning to our key operational metrics on slide 5. I am very pleased with our safety performance for the quarter. We are just shy of top decile performance with 108 out of 129 facilities operating without a single recordable injury. We actually have fewer injuries year-over-year. And while these numbers are good, we will never be satisfied. The safety of our people is our number one priority, and we will continue to focus our resources on improving our safety record over the balance of the year and beyond.

Performance was strong for our generation fleet. Total megawatts produced were 6% higher compared to the same period last year. This increase was driven largely by the return to service of our South Central Cottonwood combined-cycle plant following a significant flooding event in the first quarter of 2016, as well as higher coal generation.

The availability of our generation fleet also increased during the quarter as we had fewer repowering and environmental compliance outages. More importantly, our fleet was available almost 94% of the time as you can see by our In the Money Availability metric.

Our Retail business delivered a steady quarter driven by strong customer acquisition and retention, as well as reductions in operating costs. Both sales and customer account increased helping to offset milder than normal weather.

Now moving to our key market on slide 6. Starting on the left side of the page with the ERCOT market. The fundamentals in this market are strong, and we continued to see trends that point to market tightening over the next several years. Weather-normalized demand growth in ERCOT has averaged 2.3% over the last 12 months, which is well above the flat to negative growth of every other competitive market in the country. This steady demand has been driven by strong increases in population and employment as well as new coastal demand from the industrial sector.

On the supply side, we continue to see delays in new builds with actual megawatts brought online coming in well below expectations. Since the latest CDR report for May, we have seen 1-gigawatt of new generation being delayed from 2018 to later years and a new 700-megawatt combined-cycle removed from the CDR. At the same time, we're seeing continued pressure for retirements given the low prices experienced in Texas over the past several years.

These market dynamics have become evident in the reserve margin calculation that indicates the tightness of market supply versus peak demand. As you can see in the chart, just in the last 18 months, reserve margins for 2018 went from the mid 20s to the high-teens. And it does not take too much in terms of additional retirements, load growth or delays to get to single-digit numbers. For these reasons, ERCOT remains the most attractive market in our opinion.

However, there are changes that need to be made to strengthen the market, including marginal losses, improved locational scarcity pricing and enhanced performance of the ORDC. We will continue our work with ERCOT, the PUCT and other stakeholders to improve price formation and ensure the well functioning of ERCOT's energy-only market.

Turning to the right side of our slide, I want to highlight the premium location of our generation fleet. In Texas, we have seen price separation between Houston and other areas. This is driven primarily by strong load growth in the area and transmission congestion. The Houston load pocket is where most of our generation is located, and given the drivers I mentioned, we would expect this premium to continue in the future.

Turning to PJM. During the quarter, we had the 2021 BRA Capacity Auction, which was the first with 100% capacity performance requirement. As you can see on the chart, over 85% of our capacity in PJM clear in the ComEd premium zone at almost $190 per megawatt day.

These are two clear examples of our plans having a competitive advantage, given their location near load pockets benefiting from premium prices.

Before handing things over to Kirk on the topic of markets, I want to take a moment to reiterate NRG's strong support and advocacy of competitive markets for both retail and wholesale.

We are disappointed with the rulings in New York and Illinois regarding subsidies for nuclear generation. However, there are strong grounds for appeal in these cases. We will continue to be a vocal advocate for competitive markets and [ph] expect (09:50) both the courts and the new FERC commissioners to take a fresh look at this issue. We remain optimistic that these subsidies will be found to be damaging to both the market and to consumers as these cases progress to the core system.

I will now turn to Kirk for our financial review.

Kirkland B. Andrews

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

Thank you, Mauricio. Turning to financial summary on slide 8. For the second quarter, NRG delivered $685 million in adjusted EBITDA and $240 million in consolidated free cash flow before growth. Total adjusted EBITDA for the quarter was relatively in line with the second quarter of 2016 and Generation and Renewables contributed $212 million in adjusted EBITDA during the quarter while Retail and Yield delivered $203 million and $270 million, respectively.

As a reminder and as I reviewed during our transformation plan presentation a couple of weeks ago, our consolidated financial results as well as our guidance now reflect a deconsolidation of GenOn.

Turning to guidance for 2017, we are reaffirming our 2017 guidance ranges which are provided and updated as a part of our transformation plan rollout to reflect adjustments related to the deconsolidation of GenOn as well as the impact of $65 million in 2017 cost savings and $175 million in one-time working capital improvements from the plan.

For your reference, I've included in the appendix the slide from our transformation plan presentation, which details these two adjustments to 2017 guidance. As a reminder, however, as I also indicated on the transformation plan call, our expectations for the balance of the year continue to place us at the lower end of the guidance range.

On August 1, we closed the sale to NRG Yield of our remaining 25% interest in the TE Wind portfolio consisting of 12 wind projects for a total cash consideration of $41 million. In addition, we have now offered yield a 38-megawatt portfolio of distributed and small utility-scale solar assets, which are not part of the ROFO Agreement. And we have proposed the creation of the new $50 million distributed generation partnership. These potential dropdowns are subject to negotiation with and the approval by NRG Yield's independent directors.

Finally, during the quarter, we successfully closed on a number of non-recourse project financings resulting in approximately $500 million in cash proceeds, including over $350 million of debt proceeds for the construction of our Carlsbad contract to cash plant in California. NRG has now repaid the $125 million outstanding balance under our corporate revolver leaving this facility now undrawn.

As a reminder, we had made that draw earlier in the year to fund the corresponding drawdown by GenOn under the intercompany revolver. Although that intercompany balance remains outstanding, GenOn is required to repay the balance upon emergence from bankruptcy. And in anticipation of that event, we repaid the NRG revolver this past quarter using excess cash on hand, which we expect will be replenished upon GenOn's emergence from bankruptcy and the corresponding repayment of the intercompany revolver.

Turning to slide 9 for a brief update on 2017 NRG-level capital allocation. Our updated capital available for allocation now reflects the proceeds received from the closing of the TE Wind dropdown further increasing expected surplus capital at year-end to $170 million. As we reviewed with you on July 12, we expect to significantly build on this balance during the first half of 2018 using proceeds from asset sales which assuming a sale of 100% of NRG Yield and Renewables would help drive anticipated excess cash to just over $4 billion by the end of 2018.

To complete the financial review, slide 10 provides an update on our corporate credit metrics. Having previously provided a pro forma view of these ratios based on the full impact of the transformation plan, this page focuses on our expected credit ratio for 2017 with the denominator of that ratio based on the midpoint of our guidance for the year.

Our expected year-end gross debt balance of $7.2 billion continues to reflect the expected deployment of $600 million in 2017 capital previously allocated toward debt reduction, which we expect to execute later this year.

Our corporate credit ratios are largely unchanged since our first quarter update and we continue to expect to achieve a net corporate debt-to-EBITDA ratio of approximately 3.7 times. As we reviewed as a part of the transformation plan, we expect to be able to achieve our target 3 times ratio by 2018 based on the EBITDA benefits of the cost savings and margin improvements.

Additional deleveraging in 2018 will be necessary solely as a result of the reduction in EBITDA associated with assets targeted for sale. We intend to fund this additional debt reduction with the proceeds from asset sales, and based on a 100% sale of NRG Yield and Renewables, would expect incremental debt reduction to be approximately $650 million in order to maintain our target ratio.

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

Mauricio Gutierrez

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

Thank you, Kirk. And to close, I want to leave you with our priorities for the balance of the year on slide 13 (sic) [slide 12].

We have remained focused on delivering our operational and financial goals while continuing to strengthen and simplify our business. Our priorities to enhance margins and streamline costs optimize our portfolio and right-size our capital structure are now integrated into our transformation plan. And we will begin updating the market on our progress starting on our third quarter call.

Also, we would expect to update the market with any material announcements regarding asset sales as they occur. As we work through these sales processes and improvements, we will also provide you a more definitive timeline for our Investor Day.

I thank you for your time today and your interest in NRG. And with that, operator, we're now ready to open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Greg Gordon of Evercore ISI. Your line is now open.

Greg Gordon
Analyst, Evercore ISI

Q

Hey. Good morning, guys.

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

A

Good morning, Greg.

Greg Gordon
Analyst, Evercore ISI

Q

I mean, I think the quarter speaks for itself pretty good numbers. And, I guess, the only thing that's material that seems to have changed is the inclusion of the $41 million from the dropdown in the cash available for distribution. So, let me ask you a different question. I know that when you announced the transformation plan, you had indicated that some of the sales processes had already been sort of well underway while others like the process of looking for a strategic alternative for NRG Yield had been more nascent because it had only begun formally after the board approved the full transformation plan.

So, can you just give us some sense of what you think the cadence of announcements will be on disposition of assets, and what we might expect to happen in the nearer term, and what we might need to sort of be cognizant of waiting for towards the end of the year?

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

A

Yes. Greg, so, as you already pointed it out, I mean, we begun some of these processes earlier in the year. They are in very advanced stages. We tried to staggered some of these sales initiatives to make sure that we access the market in an efficient way. My expectation is that the first announcements will come out in late third quarter, early fourth quarter. I don't think you should expect every single one of the announcements to be in the fourth quarter or late fourth quarter. As soon as we know, you will know. And I think that as early as the end of the third quarter, we will be in a position to update you in the processes that we started earlier in the year.

Greg Gordon
Analyst, Evercore ISI

Q

Great. And then on the third quarter call, we'll get a sense of how far along you are in the preliminary rounds of cost optimization as well.

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

A

Absolutely. I mean, as you know, we started the sales process earlier. So, I think we're going to begin doing that sometime in the end of the third quarter. But the cost savings and the working capital and everything else is really starting in earnest now. And I will be in a position to update you and the rest of the market in our third quarter call.

Greg Gordon
Analyst, Evercore ISI

Q

Great. Thank you, guys. Have a good morning.

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

A

Great. Thank you, Greg.

Operator: Thank you. Our next question comes from the line of Michael Lapides of Goldman Sachs. Your line is now open.

Michael Lapides
Analyst, Goldman Sachs & Co.

Q

Hey, guys. You've given a ton of detail over the last month. Thank you for this, in terms of your long-term planning. And by the way, super helpful. Mauricio, you made some comments about the court cases in New York and Illinois regarding nuclear subsidies. Can you talk about two things? One, what gives you what seems like such confidence on the appellate process for those cases? And two, when you look at your own nuclear plant in Texas, how do you think about whether this is a plant that's profitable at all or not, and when that's creating cash flow versus maybe just creating earnings?

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

A

Yes. Good morning, Michael. So, obviously, we're disappointed with the rulings by the District Court both in Illinois and New York. I think that you should expect that we will appeal both to the Circuit Courts. I recognize that there are some improvements that we need to make to the market, both in terms of recognizing the attributes that each power plant brings to the system and to recognize also the impact of new technologies. But where we disagree is to have an out-of-market subsidy for one specific company in a technology that is now proven and mature that, in our view, at the expense of consumers and the integrity of competitive markets. I mean, that's really the concern.

So, we think that we have a strong case and with new FERC commissioners coming in, I think there will be a fresh look, a fresh perspective on the validity of our case and the potential impact that these out-of-market subsidies can have in the competitive markets. And we feel confident that this will prevail. Obviously, I can't comment anymore because this is an ongoing legal proceeding.

I mean, in terms of our nuclear plant South Texas Project in Texas, and that's true for any other plant in our Generation portfolio, we are constantly evaluating the financial health of our facilities, not only in the near-term, but in the long-term. What are the prospects, what is their profitability today and tomorrow? And I will tell you, because I think we have a pretty good track record for that. To the extent that facilities are non-operating, are not cash flow positive, we've taken steps to either improve their competitiveness or to retire them if we don't see any better prospects to that.

So, I think we will, in the case of STP in particular, I mean this is something that we obviously work closely with our partners. This is not just an NRG decision only. We have other two partners and we are all focused in improving the competitiveness of our nuclear plant.

Michael Lapides
Analyst, Goldman Sachs & Co.

Q

Got it. Thank you, Mauricio.

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

A

Thank you, Michael.

Operator: Thank you. Our next question comes from the line of Abe Azar of Deutsche Bank. Your line is now open.

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

Q

Good morning, and congratulations on a great quarter.

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

A

Thanks, Abe. Good morning.

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

Q

How did you determine to remove 3-gigawatts from your 2018 reserve margin forecast for Texas? Any of these announced yet? Are you expecting these retirements before the summer or after the summer?

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

A

Yeah. Hi. This is Chris. As we're looking at it, I think one thing is very clear about the CDR and that's that it overstates the amount of new generation that's coming and understates the amount of retirements. Now, I know that Vistra has talked about Monticello and Big Brown and Martin's Lake is being challenged, and that's 5-gigs, 5.5-gigs or so. So, we haircutted that to only 3-gigs and threw it in there as an example of what we would expect to happen sometime soon. But during this summer, no. I think it's sometime post summer.

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

A

Yes. And just to complement what Chris said, I mean, what we tried to put here was the 2018 reserve margin. So, obviously, it's post summer of 2017. So, this is a 2018 look. And we want to make sure that people understand the levers or the drivers of the reserve margin, which translate in more or less scarcity prices. So, this will give you an assessment in terms of what we're seeing in the market in terms of delays of new builds and potential retirements that can happen in the near to medium term.

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

Q

Great. Shifting gears, how much of the cost savings are expected at Retail? And can you provide examples of how you'll achieve these savings while simultaneously growing margins?

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

A

Yes. So, when you talk about – for Retail, we have done two things. One, there is a component that is embedded in the cost savings, in the $590 million of cost savings. And then there is a second component in terms of margin enhancement of $215 million. So, I think, when you're looking at both, I think you should look at them separately, Abe.

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

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Shahriar Pourreza of Guggenheim. Your line is now open.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Good morning, guys.

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

A

Good morning, Shahriar.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Hey. My questions were actually answered. Congrats on the quarter. Thanks.

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

A

Hey. Thank you, Shahriar.

Operator: Thank you. And our next question comes from the line of Ali Agha of SunTrust. Your line is now open.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning.

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

A

Good morning, Ali.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. Mauricio, on the asset sales process, can we just clarify, are you sort of disciplining yourself to say, okay, we want deal to at least be announced in the fourth quarter by the end of this year, and if we can't get some assets across the finish line we're not going to sell them or could some of this move in to next year as well?

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

A

Ali, I mean, my expectation given where we are in the processes and the fact that we started earlier on some of them, in particular, in the conventional side my expectation is, it would have a clear line of sight by the end of the year. Obviously, we can't control the processes completely. It depends on our market response to it. But my expectation is that by the end of the year, we will have enough information to be able to provide you with our announcement on all the asset sales.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. But there's nothing to prevent – as you said, if some things are slipping into next year you're not going to stop that process.

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

A

No. There is nothing to stop these processes. They are growing, they're growing very well. As I mentioned in the call a couple weeks ago, we've received very good response from the market so far. And I am encouraged by what I'm seeing. And I think that we'll be able to provide you something, as I mentioned earlier to Greg, as early as the third quarter call.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And on the conventional fuel side, the 6-gigawatts, are you seeing any influence from the fact that there seems to be significant amount of capacity whether it's portfolios or single assets on the market? It appears to be a buyer's market sitting from the outside. I don't know if you've seen that on the 6-gigawatt sale process.

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

A

One thing that I think is important to recognize is that we characterize this 6-gigawatts, but these are not only assets but businesses. And these are profitable and good businesses, attractive businesses. So, they don't necessarily are competing with single asset sales completely. You should think about it as more of an integrated and comprehensive set of businesses and assets. We are seeing a lot of assets in the market, but I think what we have been able to put here is a type of asset or business that is differentiated from a single combined-cycle somewhere in the country.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got it. Last question, Mauricio. Once the transformation is done, you're looking at an integrated platform with fossil fuel generation. Given your comments earlier, there seems to be a regulatory push towards subsidies of nuclear and renewables, ongoing subsidies of renewables. And apart from Texas, demand and load growth has been pretty flat to anemic. Does that concern you when you look at that portfolio with no renewables and this kind of market headwinds that you're going to be seeing once you're done with the transformation?

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

A

Yeah. So, I think you need to look at it on a regional basis. So, in Texas, as you know, we have a very well balanced portfolio between Retail and Generation. I feel very comfortable with the amount of base load and peaking that we have to be able to manage our load obligations and our load business that we have in Texas. It continues to be a very attractive market, a very robust market as I mentioned on the call. We're not seeing any signs of a slowdown in terms of economic growth and load growth. So, I'm very comfortable in Texas.

In the Northeast, given the resolution of GenOn and some of the conventional asset sales that we're going to have, post the transformation plan, we will have an opportunity to rebalance that portfolio. And while we're going to be a little longer at generation, keep in mind that that generation is within the load pocket of the Chicago area, New York City or Southwest Connecticut and that these assets benefit significantly from capacity prices that have been very robust and continue to be robust as far as 2020, 2021. So, we have a five-year runway where it gives me a lot of comfort in terms of the rebalancing of our portfolio. And, obviously, we evaluate the composition of our integrated platform every time and we see if the asset mix that we have is the right mix to manage our load. So, that's how I think about the post-transformation plan in terms of our portfolio positioning.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Understood. Thank you.

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

A

Thank you, Ali.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Neel Mitra of Tudor, Pickering, Holt. Your line is now open.

Neel Mitra
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Hi. Good morning.

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

A

Good morning, Neel.

Neel Mitra
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

I had a question on the spread between ERCOT Houston and ERCOT North. I know it's been very healthy year-to-date, but how do you expect the Houston Import Project in 2018 to affect that spread going forward?

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

A

Hey, Neel. Chris here. I'll take that one. So, yeah. We've seen during work on the line some decent spreads in the real time in the day ahead especially the spring. Tapered off; now that we're in the summer, they've stopped working on it. Work will recommence here once we get into the fall. And then the question is, Houston Import Project obviously built to try and contain those spreads. Working against that might be some of these retirements in the north.

Obviously, supreme load growth down in the Gulf Coast. I saw in, I think it was Megawatt Daily yesterday that Oncor reported 3.9% quarter-on-quarter growth, which is obviously – I mean, that's double what the weather norm overall Texas piece was, which I think was 2.3% for the rolling 12 months. So, I mean, look, the growth is happening. It's happening in the Gulf Coast and that's where we are. That would tend to help buoy the spreads there in spite of even Houston Import.

Neel Mitra Q
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Got it. And it seems like the Limestone coal plant sits right at the beginning of the Houston Import Project. So, from a nodal perspective, do you expect Limestone to trade at a premium to ERCOT North or do you expect it to kind of just stay within the zone price?

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

Yeah. I mean, probably a slight premium. I wouldn't say it's huge and I don't think it would look just like the Houston price, but I would say slight premium.

Neel Mitra Q
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Okay. Got it. And the second question, Mauricio. Just thinking about the $250 million Retail margin enhancement, what base should we think of when we model the $250 million? Just from the perspective of we have retail results now, you guys are bullish to Texas generation going forward. So, if post the results, really start to materialize in Texas, then Retail should naturally come down, which isn't a bad thing.

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

Yes, Neel. So, well, first of all, it's $215 million just to make sure that we're correct in terms of margin enhancement. And what I said before is, obviously, when we did the comprehensive review of our business, we not only looked at cost savings but we also look at our businesses. And particularly in Retail, we knew that there is a, in terms of the scale and scope of our retail operations, there are very few people that we can actually compare ourselves to. So, we went a little outside of the power space and we went to the retail space, in the entire retail space in other industries to see what are the best practices.

And we identified two areas where we can actually improve our Retail business which we are very proud off, and I think everybody recognizes our leading position in this space. And that was building up our IT infrastructure and analytics. And I think everybody recognizes the amount of information that we have from our customers. And so, there is an opportunity here to really take our Retail business to the next level, adopting some of the best practices from other industries.

I think the midpoint that you were talking about, how should we think about it. For 2017, our midpoint was around $750 million give or take. So, the way I characterize this effort is, in the last three years, we grew our business roughly by $200 million. What we're saying that is in the next three years, we are going to grow it by $200 million. This, I hope, gives all of you comfort that we have done this in the past and that's what we are targeting to do in the future.

Neel Mitra
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Okay. Great. Thank you very much.

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

A

Thank you, Neel.

Operator: Thank you. And we are out of time. I would like to turn the conference back over to Mauricio Gutierrez, CEO, for closing remarks.

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

Thank you, Takia. And I want to thank you all for your interest in NRG, for joining us in this call. And I look forward to talking to you in the coming weeks and months. Thank you.

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