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NRG Energy, Inc. (NRG)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for standing by. Welcome to the NRG Energy Inc., Third Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. Following management's prepared remarks, we will host a question-and-answer session and our instructions will be given at that time. [Operator Instructions] As a reminder, this conference call may be recorded for replay purposes.

It is now my pleasure to hand the conference over to Mr. Kevin Cole, Head of Investor Relations. Sir, you may begin.

Kevin L. Cole

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

Thank you, Brian. Good morning and welcome to NRG Energy's third quarter 2019 earnings call. This morning's call is scheduled for 45 minutes in length and is being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

Please note that today's discussion may contain forward-looking statements which are based on assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation, as well as the risk factors in our SEC filings. We undertake no obligation to update these statements as a result of future events except as required by law.

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

And 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, and thank you for your interest in NRG. I'm joined this morning by Kirk Andrews, our Chief Financial Officer. And also on the call and available for questions, we have Elizabeth Killinger, Head of our Retail Mass business, and Chris Moser, Head of Operations.

I would like to start the call with our key messages on slide 3 that highlight the simplicity of our value proposition and demonstrate the predictability of our platform, particularly after the summer we experienced in Texas with significant weather and price volatility.

First, our Integrated platform performed well during the summer, allowing us to narrow our 2019 guidance around the midpoint of our range and validating again the resilience of our business. Second, we're initiating 2020 guidance that further demonstrates our ability to deliver robust and predictable results through varying market conditions. And third, we're providing additional clarity on our capital allocation philosophy, given the financial flexibility that we have afforded ourselves.

We are introducing a framework consistent with our goal of growing and perfecting our business while returning meaningful capital to our shareholders. These framework targets 50% of excess capital towards growth and 50% to be returned to shareholders, supported now by a more significant dividend policy.

So, moving to our third quarter results and highlights on slide 4, as you can see on the left-hand side of this slide, during the quarter we remained a top decile safety performance and delivered \$792 million of adjusted EBITDA or 33% higher than last year on a same-store basis. This was primarily driven by higher realized power prices, margin enhancement and retail customer growth, partially offset by higher retail supply cost and higher unplanned outages.

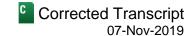
I mean, the summer in Texas was particularly challenging given the extreme weather and price volatility that resulted in record prices and record demand. I am very proud of our Generation and Retail teams for their ability to deliver strong financial performance during a period of extreme price volatility. It is exactly in this price environment that our platform demonstrates the benefits of the Integrated model.

Our year-to-date adjusted EBITDA results now stand at \$1.6 billion, a 19% increase from last year, allowing us to narrow our 2019 guidance range around the midpoint to \$1.9 billion to \$2 billion.

During the quarter, we continued to execute on our capital-light strategy, signing an additional 100 megawatts of solar PPAs, bringing the total to 1.4 gigawatts this year. While we continue to pursue additional solar PPAs which allows us to better serve our customers and further balance our Integrated platform. Also, during the quarter, we completed \$55 million of our current \$250 million share repurchase program, leaving \$195 million to be completed over the balance of the year.

Moving to the right-side of the slide, we're initiating 2020 adjusted EBITDA guidance of \$1.9 billion to \$2.1 billion and free cash flow before growth guidance of \$1.275 billion to \$1.475 billion. This guidance further demonstrates our ability to deliver stable and predictable results through varying market conditions. Kirk will provide additional details on both guidance ranges later in the call.

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Finally, as part of the long-term capital allocation policy that I will discuss in more detail later in the presentation, I am pleased to announce that beginning in the first quarter of 2020, we will increase our annual dividend from \$0.12 per share to \$1.20 per share, or about 3% yield with a target annual growth rate of 7% to 9%.

Now, turning to slide 5 for a closer look at the summer in Texas. On the top-left chart we show weather represented as cooling degree days by month. As you can see, summer weather was mixed. Mild temperatures [ph] showed (00:06:00) early in the summer with warmer weather in August and September presented unique challenges for the power grid. This resulted in power prices significantly different from their forward indications, as you can see in the lower chart.

July prices came in below forecast while August and September came in significantly above, driven primarily by warmer weather coupled with lower than expected wind generation and increased unplanned outages. Like the rest of the market, we also experienced some increased unplanned outages, the most notable one being WA Parish Unit 6 after running reliably for over 200 consecutive days. The cause of the outage was a one-off and we do not expect to see a repeat in the future as the circumstances were specific to that unit. However, the unit missed most of August and September, limiting our ability to benefit from higher prices.

Now, turning to the right-side of the slide, our Integrated platform provided stable results through July's low, low, low price and August and September's high, low, high price environments. Underpinning our success was strong supply and risk management, enhanced customer outreach and bill management tools provided to residential and commercial customers.

Now between the summer of 2018 with volatile [ph] forwards (00:07:33) and disappointing real-time prices and the summer of 2019 with almost the opposite, higher real-time prices, we have now demonstrated the strength and predictability of our Integrated model through two very different market conditions. This is one more example of what underpins our confidence in the stability and predictability of our business.

Now, as we enter 2020 with limited calls on our capital, I want to take a moment to review our capital allocation track record on slide 6, particularly in light of the financial flexibility we have created for ourselves. As you recall, we have outlined three distinct phases on our transformation. First, in 2016 and 2017, we focus on stabilizing the business through selling or closing underperforming assets, focusing on our core integrated business and strengthening our balance sheet. If you recall, my first commitment to you nearly four years ago was to leave no doubt in our balance sheet strength, and that is where we committed our excess cash. We allocated 70% of excess cash during this period to debt repayment and 20% to resolve legacy commitments.

Next, in 2018, we enter phase 2 with a focus on right-sizing the portfolio to better integrate on our line generation with Retail. During this period, we executed over \$3 billion in asset sales, which reduced our Generation portfolio by 50% and strengthened our balance sheet to investment grade credit metrics, creating tremendous financial flexibility. And with this financial flexibility, we completed two accretive, mid-sized Retail transactions by allocating 18% of our excess cash and took advantage of our dislocated stock price by allocating nearly 50% towards returning capital to shareholders and reducing our share count by over 20%.

Now, as we move into our next phase of redefining our business, and with significant financial flexibility, I want to provide additional clarity and refinement into our long-term capital principles and priorities. As you can see on the right-hand side, our commitment to safety, operational excellence and balance sheet remains unchanged. Our enhancement today will focus on growing our business and returning capital to shareholders. Like I have said in past calls, I believe a predictable cash flow company like ours should regularly and meaningfully return capital to shareholders. It creates discipline and it is part of our overall value proposition.

Let me further unpack this on slide 7. Starting on the left-hand side, you can see our updated capital allocation framework waterfall. We have come a long way in achieving our goals. We continue to maintain top decile safety and operational excellence and have achieved what we believe to be investment grade credit metrics. Today, we are establishing a target allocation mix of 50% [ph] to accretive (00:11:13) growth investments and 50% to return of capital.

For those listening that are new to the energy story, prior to today, returning capital to shareholders was primarily viewed through the lens of unallocated growth capital, which is no longer the case. I believe a long term commitment through a strong dividend policy complemented by share repurchases is an important attribute for both value creation and broadening our shareholder base.

First, on growth, as you can see on the waterfall, there is no change in our investment criteria. This capital will either be deployed in good, sound investments that meet our financial thresholds and are consistent with our strategy, or they will be returned back to our shareholders.

Next, on return of capital, we are increasing our annual dividend from \$0.12 to \$1.20 per share beginning in the first quarter of 2020 and targeting a 7% to 9% annual growth rate. While I continue to see our stock as one of the most compelling investment opportunities, I also believe a more significant dividend policy provides added visibility in returning capital to shareholders and helps broaden our investor base as we continue to execute and validate the stability and predictability of cash flows. We will also complement the dividend with significant and programmatic share repurchases.

On the right side of the slide we want to illustrate the magnitude of the excess cash and the impact of our refined capital allocation policy. If we simply maintain the existing earnings power of our business while deploying 50% of our excess cash at the midpoint of our hurdle rate and the remaining 50% of excess cash used to grow the dividend and for share repurchases, you can see in this scenario that over the next five years we would generate over \$8 billion of excess cash or 80% of our market cap, grow our annual free cash flow before growth by 50% and shrink our share count by 30%.

We are an increasingly stable and predictable cash flow company that through the combination of compelling growth investments and share repurchases are on track to double our free cash flow per share over the next five years while paying a compelling and affordable dividend with 7% to 9% annual growth.

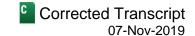
So with that, I will turn it over to Kirk for the financial review.

Kirkland B. Andrews

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

Thank you, Mauricio. Turning to the financial summary on slide 9, NRG delivered \$792 million in adjusted EBITDA for the third quarter and \$433 million in free cash flow before growth. This brings total adjusted EBITDA through the first nine months to around \$1.6 billion with \$637 million in free cash flow. After adjusting for a \$57 million reduction in EBITDA for asset sales and de-consolidations in 2018, our third quarter results were \$198 million higher than 2018, driven by Generation which benefited from higher realized power prices in Texas and lower costs from Transformation Plan savings. These elements were partially offset by lower capacity revenues and generation volumes in the East and West, while Retail remained flat for the quarter with higher supply cost and milder weather at the beginning of the quarter, offsetting our margin enhancement initiatives and contribution from acquisitions.

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The bulk of third quarter Retail though and EBITDA was generated during the back half of the third quarter, resulting in higher working capital driven by receivables. As a result of a greater portion of the cash flow associated with third quarter retail EBITDA, that cash will be realized during the fourth quarter as the receivable balance unwinds. And we've already begun to see this significant cash flow materialize over the month of October.

With these results today, we are narrowing our 2019 EBITDA guidance range to \$1.9 billion to \$2 billion in EBITDA. As I alluded to last quarter, higher power prices in ERCOT have driven higher realized and expected EBITDA for the Generation segment, while the corresponding higher cost drives lower expected EBITDA for Retail. These elements are reflected in the revised segment components of our narrowed consolidated guidance which, nonetheless, remains centered around our original midpoint.

While midpoint EBITDA guidance remains unchanged, our revised 2019 free cash flow guidance midpoint is lower by \$50 million due to the cash flow impact from outages during 2019, including WA Parish. Although the EBITDA impact of these outages was offset by other items, our free cash flow outlook is slightly lower, primarily due to increases in maintenance CapEx resulting from the outages.

During the third quarter, we finalized the contractually required one-time leverage test for our Petra Nova project. Although as I indicated on our previous earnings call, NRG's obligation could have been up to \$124 million, we were able to keep the amount required from NRG to only \$107 million. We satisfied this obligation in two parts. First, \$95 million of cash was contributed by NRG to the project in the third quarter; and second, NRG posted a \$12 million letter of credit which may be drawn by the project at a future date. Having now satisfied our legacy obligation under the leverage test, the guarantee supporting this obligation is now eliminated and the remaining debt at the project is non-recourse to NRG. Finally, since the announcement in August of our \$250 million share repurchase program, we've completed \$55 million in additional share repurchases at an average of \$37.62 a share. We expect to complete the remaining \$195 million of repurchases under that program over the balance of the year.

Turning to slide 10, you'll find our newly announced guidance ranges for 2020. Specifically, we expect \$1.9 billion to \$2 billion in adjusted EBITDA for 2020. As shown in the table on the right-hand side of the slide, based on the midpoint of our guidance ranges, this implies about \$50 million of year-over-year increase in adjusted EBITDA, driven by the final component of our margin enhancement program, or \$80 million and the full contribution from the Stream acquisition. These are partially offset by higher year-over-year retail costs.

We expect \$1.275 billion to \$1.375 billion in free cash flow before growth in 2020, converting approximately \$0.70 of EBITDA into cash. Our 2020 guidance ranges exclude any EBITDA or free cash flow associated with Agua Caliente, as we are targeting the sale of our remaining stake in that project during 2020.

Turning to slide 11 for a brief update on 2019 capital allocation, changes since the prior quarter are highlighted in blue and include a slight adjustment to total capital to reflect the midpoint of our revised free cash flow guidance.

Growth investments now reflect the \$95 million in cash contributed to Petra Nova, as well as a small increase associated with the purchase of Retail books. As a result, we have about \$80 million of 2019 excess capital remaining to be allocated, which we'd expect to allocate using the newly announced guideline Mauricio outlined earlier, or approximately 50% for growth and 50% to share repurchases.

Finally, as I mentioned during my review of third quarter results, we've seen significant positive cash flow since the end of the quarter. In order to show this more clearly, on the upper-right of the slide I've included a liquidity

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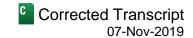


table to show the significant change in liquidity, which is the sum of cash and credit facility availability as of November 1st as compared to the quarter end. Over the month of October, our liquidity improved by over \$450 million. Net of the non-cash reduction and letters of credit posted, over 50% of this improvement in liquidity represents free cash flow before growth during the month of October.

And finally, turning to slide 12, the midpoint of our newly announced 2020 guidance range places us on track to achieve the low end of our target investment grade metrics or about 2.5 times net debt to EBITDA, making 2020 the second year of investment grade metrics for NRG. We continue to believe that these consistent and strong credit metrics, combined with the continued execution and an active dialogue with the ratings agencies places us in a position to earn an investment grade rating in the next 12 to 18 months.

And with that, I'll turn it back to Mauricio.

Mauricio Gutierrez

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

Thank you, Kirk. Turning to slide 14, I want to provide you a few closing thoughts on our 2019 priorities and expectations. Our top priority for some time has been to demonstrate the predictability and stability of our Integrated platform, and this summer marks another year of delivering stable earnings through volatile market conditions. As you can see on our scorecard, we've made significant progress across all other priorities, from perfecting our business and reducing debt to delivering on our Transformation goals. We will continue to simplify our disclosures to help better understand the value proposition of our Integrated platform going forward.

As we move into 2020, I am confident, our platform, coupled with clear and compelling capital allocation principles, is well-positioned to deliver strong and predictable results and create significant shareholder value.

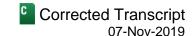
So with that, I want to thank you for your time and interest in NRG. Brian, we're now ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] And our first question will come from the line of Julien Dumoulin-Smith with Bank of America. Your line is now open. Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch Hey. Good morning, team. Congratulations. Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Thank you, Julien. Good morning. Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch Hey. So perhaps first off I'm curious on the new growth strategy if you could elaborate a little bit. How do you think about finding investments that achieve those hurdle rates? And how do you think about sort of over time contrasting that against your own levered and unlevered yield as it stands today? Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Yes. Well, I don't think there is a new growth strategy. I think what we're doing here is to provide more clarity on the return of capital policy that we have long term. In terms of growth, I don't think anything has changed from my perspective. In the near term, I continue to see opportunities in the - primarily in the Retail space, I will say smallto medium-sized companies similar to what we executed the past year-and-a-half with XOOM and Stream. And the number of those opportunities are still limited. But that's where we're going to focus in the near-term. I mean medium and long term, we will see where these opportunities are. I mean, as we continue to perfect our model, obviously we are looking at, how do we enhance the products and services that we provide to our customers. But I wouldn't characterize it as a new growth strategy; it's just providing more clarity on our return of capital to shareholders. Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch But are there still opportunities to acquire Retail platforms at this point given just the consolidation we've already seen. And then maybe I'll ask at the same time, the 7% and 9% dividend growth that's basically predicated on not just the repo but also finding these platforms and [indiscernible] (00:23:52). Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Yeah. So, I mean we still see some opportunities. I mean, we're – as you mentioned, I mean there is some – there is a pretty fair activity in terms of consolidation in the Retail space. We're evaluating what will be

complementary to our business in terms of products, regions, channels, just like we did with XOOM and Stream which gets us into the referral sales channel. We're evaluating what else – where are these other opportunities

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that can complement and enhance and grow our Retail business. But that's where I see right now the most immediate opportunities. Obviously, we're still executing on our capital-light strategy to continue perfecting and balancing our portfolio, But as I said, I mean that's capital, right?

Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	C
Absolutely. Okay. Thank you very much, guys. I'll pass it up.	
Operator : Thank you. And our next question will come from the line of is now open.	Greg Gordon with Evercore ISI. Your line
Greg Gordon Analyst, Evercore ISI	C
Thanks. Good morning.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	Д
Good morning. How are you?	

I'm good. I'm good. So, I guess just to follow up on Julien's point. I mean, you are reiterating a pretty high hurdle rate for growth capital investments and it would seem to me that the depth of the market for either assets or businesses that have those types of returns could be pretty shallow. So, you are committed if you can't deploy that capital in any given year to – pivoting to buy backs with that money? I mean, I know you – could you just talk through your thought process on that and how you'll communicate that going forward?

Mauricio Gutierrez

Greg Gordon
Analyst, Evercore ISI

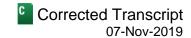
President, Chief Executive Officer & Director, NRG Energy, Inc.

Yeah. I mean, the long-term capital – the return of capital policy that we're providing today does have some flexibility embedded in it. I mean, if we cannot find growth opportunities that meet our financial thresholds and, importantly, that is superior to buying back our own stock, then we'll return that capital to shareholders in the form of share buybacks. So that's where the flexibility is imbedded in our plan.

But again, what I wanted – the goal of today is to provide more clarity in terms of what is that return of capital philosophy that supports the value proposition of NRG. Greg, as I said in the past, I mean, the value proposition of the company is to have a business model that is balanced, that provides stable and predictable earnings with an investment grade type of balance sheet and a very clear and transparent capital allocation principles.

And part of those principles is to returning a meaningful part of our excess cash to shareholders. What we are doing today is providing that clarity in terms of what is meaningful. And what I'm saying today is, \$0.50 of every dollar of excess cash will go to shareholders in the form of dividends and share repurchases and 50% will go to growth. But if we cannot find growth opportunities that meet that thresholds that I just said, then we'll return that capital to shareholders.

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Greg Gordon

Analyst, Evercore ISI

Great. Are there any – is there any type of investment that you would say is sort of off limits? Like, are you not interested in more power generation or – in the right markets if you have the right retail load mix? Are power generation assets potentially part of the capital deployment scenario?

Mauricio Gutierrez

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

I mean at this point, we're being very successful with our capital-light strategy on the Generation side. Given where we're seeing the economics, I don't see immediately opportunities in Generation. That doesn't mean that we're creating optionality within our portfolio. I mean we have a lot of assets. We have a lot of power plants across our fleet. But I don't see that – today, I mean I think the most immediate actionable opportunities are within the Retail space.

Greg Gordon

Analyst, Evercore ISI

Great. Thanks. One last question. When I look at the hedges, I see that you've rolled the hedges forward to 2021 and it looks like you've got some pretty good marks in there. You also mentioned that you're going to continue however to evolve your disclosures. Can you maybe give us a little bit more on where you think you're heading there? So two questions, sorry.

Mauricio Gutierrez

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

Yes. I mean when I think about the business, I don't think about it two different businesses, I mean Generation and Retail. I actually think about it as an integrated platform. So, one of the improvements that we're going to do on the disclosures is, how do we think about that Integrated platform. I think we've been very good at providing disclosures on the Generation side of the business; but now we have to do a better job in providing them holistically for the Integrated model as a whole.

Greg Gordon

Analyst, Evercore ISI

Great. And Kirk, can you comment on the hedge position? It looks like you have some pretty good marks there.

Kirkland B. Andrews

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

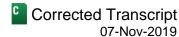
Yeah. I mean, I think we've taken advantage of some higher prices as we always have. At the end of the day that's obviously improved our position. but we're remindful of the fact that the balance of that whether we hedge or whether we remain open, that obviously provides a backdrop or support for the Retail supply, especially around ERCOT. But yeah, it's certainly a product of well-timed hedging taking advantage of rally in market prices beyond the [ph] prompt year (00:29:50). Certainly.

Greg Gordon

Analyst, Evercore ISI

Okay. Thank you guys.

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Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thank you, Greg.	_
Operator: Thank you. And our next question will come from the line of Steve Fleishman Your line is now open.	an with Wolfe Research.
Steve Fleishman Analyst, Wolfe Research LLC	C
Yeah. Hi. Good morning.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	Д
Good morning.	
Steve Fleishman Analyst, Wolfe Research LLC	C
So maybe just – hey, Mauricio. So maybe just a little more color on – obviously Retail's cost and the like, but just how is Retail performing both in terms of the traditional ERCC count, things like that and also, how would you characterize how the acquisitions have	OT business, customer
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	Д
Yes, Steve. Well, let me turn it to Elizabeth.	
Elizabeth R. Killinger Executive Vice President, NRG Retail, NRG Energy, Inc.	A
So first off, I'll start with the acquisitions. We are very pleased with both the XOOM and have integrated very seamlessly into our organization and in XOOM's case, has set recunder our ownership. And Stream is integrating well. Both culturally and from a team are parametrized that is using very well.	cords in selling once it was

perspective, that's going very well.

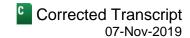
We do have some noise in our customer count inter-quarter, really because of the acquisitions from the small book transactions which includes expected early attritions. And so, we will - that's part of our valuation model. And overall, I'm very pleased with the strength and the performance of our acquisition and retention engine in light of some customer price pressure, because - bill shock pressure that customers have experienced. So we'll continue to run this business in balance with EBITDA and customer count with an eye toward long-term growth, which we have demonstrated year in and year out both on earnings and customer count.

Steve Fleishman

Analyst, Wolfe Research LLC

Okay. And then just at a high level – I mean, just to try and simplify what you're seeing in the mix here, is just the supply cost Retail going up because of higher ERCOT prices and you are capturing that essentially in Generation with better numbers 2019-2020 than you might have initially expected? Is that...

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Mauricio Gutierrez

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

That's correct. That's absolutely correct, Steve. I mean, this is a complementary and countercyclical nature of these two businesses. But as I said in the past, I mean, I am focus on total gross margin for the company and less focus on the segments and making sure that that top – that gross margin is stable and predictable regardless of market conditions.

Steve Fleishman

Analyst, Wolfe Research LLC

And then just lastly on the PPA strategy, so you added a little bit more in Texas. Just what – where should we maybe see that going over the next year or so? How much more do you want to do?

Mauricio Gutierrez

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

Yeah. Well, I mean, as you noted, I mean, we only executed 100 megawatts this quarter, and I think that is an indication of the slowdown that we're seeing on solar development. We're just not seeing the attractiveness on the solar PPA that we saw initially. I mean, there has been an increase in cost for some of the solar developers due to tariffs. So, I think that's – having a very active strategy like this just gives us a lot of visibility in terms of the speed at which solar development is happening, and what I'm telling you, it's slowing down a little bit.

In terms of how much more from the \$1.4 billion, the governing number here is the size of our Retail business. So if you look at our Retail business peak load versus our Generation, I would feel comfortable if we execute close to two to 2.5 years. But obviously, that's going to depend on the economics that we can achieve on the PPAs. But I think that's a good observation, Steve.

Steve Fleishman

Analyst, Wolfe Research LLC

And is it just less – you're not seeing kind of some of the irrational price offers, I guess, that might have been there before in terms of...

Mauricio Gutierrez

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

Yeah. I mean, I think some of the offers that we saw earlier, we don't see it anymore. And I think it's a function of two things. One – I mean, keep in mind that the counterparty that we're talking about are pretty high-quality counterparties because we can provide them a – on average a 10-year contract with a balance sheet that is investment grade. So we actually enable them and put them at a higher competitive position vis-à-vis other developers. But I think it's also impacted by perhaps higher costs due to tariffs that have been imposed.

Steve Fleishman

Analyst, Wolfe Research LLC

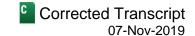
Thank you.

Mauricio Gutierrez

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

You're welcome, Steve.

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Operator: Thank you. And our next question will come from line of Will Granger with Citi. Your line is open.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Q

Hi. This is actually Praful from Citi. So, on the EBITDA profile that you provided over the longer term as you think about your capital allocation, just wanted to understand, do you think about any degradation of EBITDA in that profile especially if there's any replacement needed for existing assets that – existing Generation assets that need to be replaced? How do you think about that in that mix?

Mauricio Gutierrez

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



Yes. No. Good morning, Praful. So the way I think about it is, perhaps we need to do it on a regional basis. In Texas, I see it very stable because we have a pretty well-balanced portfolio between Generation and Retail. So, whether you have a contango or a backwardated curve, your retail margins can expand while your Generation contracts and the other way around. So I see that very stable in Texas for the foreseeable future.

The East, this is slightly different because our Generation continues to be bigger than our Retail, and it's primarily driven by capacity prices. The good thing in the East is that we know exactly what it is in the next three years. So, we have good – I mean, everybody has good visibility on that.

Beyond that, it's going to depend on what happens with FERC and the action that they take around the out-of-market subsidies for nuclear resources, and that's really going to depend on that regulatory outcome. What I will say is that we have actually seen a, let's call it, a nice surprise in California. Capacity prices have increased significantly.

So while we have seen some pressure in capacity in the East, we actually have seen some gains in the West that have balanced each other out. So I will say that I just feel very comfortable with the guidance that we have provided for 2020 as a base to do the calculations, and obviously what we provided was illustrative, but I feel very comfortable with that.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.



Got you. That's super-helpful context. Then in terms of what you said around the growth CapEx and Retail, given you are pretty balanced, as you said, in the Texas market already, should we think about the incremental retail that you are looking to acquire in the nearer term to be in different markets other than Texas, or how should we think about that?

Mauricio Gutierrez

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

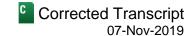


No, I think it will be both. I mean, obviously, I want to grow the East to better balance. But I will say that it's not that we're not growing in Texas. I mean we have a pretty commanding lead, I mean a little over 30% of market share. So, I mean there's still – if we can grow Texas – I mean, think about Texas in the context of, there is organic growth in Texas as a whole; the market is growing 2%. So, we can grow with the market.

And then number two, if we can add additional market share from competitors either through organic initiatives or inorganic acquisitions – I mean, we're going to do that, but value is value for me regardless of where – the region.

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Thank you.



And then on the rebalancing side in Texas, I mean we're going to continue to take advantage of these new technologies that are coming into the market and I mean we're doing it at very attractive levels. We're participating on that. And all it does is just lower our cost of serving loads. So, I'm good with that.

Praful Mehta Analyst, Citigroup Global Markets, Inc.

Got you. Super-helpful. Then just finally, in terms of like the breadth of Retail, would you look at distributed generation or some of those types of assets as well as part of your broad Retail mix or are you kind of going to stay more focused in terms of what you acquire?

Mauricio Gutierrez

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

Yes. I mean, if your question of distributed generation is something like residential solar, no, I'm not. I think we have been there. We have done that. We're focused on continuing to establish a much closer relationship with our customers, creating more loyalty and affinity, providing more products and services. But we don't have to vertically integrate every single product that we offer to our customers. I mean, I'm okay partnering. And actually, today we offer residential solar; we just offer it through partners. And what is important to me is that we maintain the relationship with a customer, that we give them best-in-class interface to all the products and services that we provide, whether we do them all in-house or not. And in the case of some of the distributed resources, I'd rather partner than vertically integrate.

Praful Mehta Analyst, Citigroup Global Markets, Inc.	
Got you. Super-helpful, Mauricio. Thanks so much	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	А

Operator: Thank you. And our last question will come from the line of Ali Agha with SunTrust. Your line is now

open.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Thank you. Good morning.

Married O. France

Mauricio Gutierrez

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

Good morning, Ali.

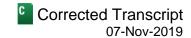
Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Good morning. The first question, Mauricio, as you unveil your higher or more aggressive dividend policy,

wondering if you've had discussions with the rating agencies? Does it have any implications on their thinking regarding investment grade and just from a priority point of view, where does investment grade, or achieving that fit in versus capital allocation et cetera?

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Mauricio Gutierrez

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

Kirk?

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

Well, I mean, first of all – it's Kirk. We've obviously allocated the capital necessary to achieve the metrics both in 2019 and sustain them into 2020. So from a capital allocation perspective we feel very comfortable that we put our money where our metrics need to be and are, if you will. As far as the dividend is concerned, based on our ongoing dialogue with the rating agencies, I think certainly they are very focused on capital allocation.

Our first priority which we say to you and say to them, notwithstanding the fact we don't perceive the need for capital, it doesn't change the fact that our priority is first to maintain those balance sheet metrics. That's a very important part of the dialogue, both with our investors as well as the agencies.

And we feel comfortable that the dividend commitment is right-sized relative to our confidence in the overall magnitude of free cash flow. Still affording us a lot of financial flexibility around that. And because – as the chart Mauricio showed depicts – the combination or the benefit of ongoing share repurchases to a significant degree, i.e. shrinking the denominator keeps us from needing to grow the overall dividend at the same magnitude as a growth on a per share basis. So that also keeps the capital necessary for that very manageable. So I think all that factors in both to our thinking about the dividend as well as the dialogue we'd have with the rating agencies around that topic.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Got you. And then secondly, coming back to the – this Integrated model, so as you depict to us on slide 21, at least on the wholesale side, you're seeing this – currently this downward trend 2021 over 2020. When you think about the Retail business, how much of that roughly do you think is offset and – on an integrated basis just big picture-wise, how does 2021 today look to you relative to 2020?

Mauricio Gutierrez

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

Yeah. I would say pretty flat. I mean, we have the ability to expand margins on that environment. So when I say that it's complementary and countercyclical, I mean if there is a – if there is some backwardation in the curve and that's putting some pressure on Generation, I expect Retail to expand those margins.

And keep in mind that we're also – in 2021, we're going to start seeing the benefits of the PPAs that we have also signed. So, they tend to be somewhat very attractive compared to market. So, all it does is we're serving low – at a lower cost of goods sold for lack of a better word.

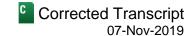
Now, like I said, I mean you also have to look at – the East is slightly different, right? Like I said, I mean it's driven primarily by capacity revenues. But we provide very clear visibility in terms of what those capacity revenues are for the next three years. They're locked in. So, there's no surprises. And we can adjust our maintenance programs, we can adjust our cost structure depending on what the earnings profile of those assets in the East would be. So, I mean, that's a lever that you perhaps – actually, that you don't see in this one-dimensional sensitivity that we provide is what else can we do around the cost structure of the company to ensure that we maintain competitiveness in our [ph] fleet (00:43:52).

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Ali Agha Analyst, SunTrust Robinson Humphrey, Inc.	C
Got you. And final question, so one of your peer companies talked about this concept of retail backwardation, where they're seeing negative margins in the first couple of years turning to positive as they sign fixed price longer-term contracts. Just curious, are you seeing any of that in your portfolio in your markets?	,
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Well, everything that with – I mean, I'm assuming you're talking about commercial and industrial long-term transactions, is that what	
Ali Agha Analyst, SunTrust Robinson Humphrey, Inc.	Q
Yes,	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
you're talking about?	
Ali Agha Analyst, SunTrust Robinson Humphrey, Inc.	Q
Yes.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Yeah. So, I mean, I guess a couple of things. Number one, when we do any C&I transaction, we back-to-back with supply; so we basically locking a gross margin for the term of the transaction. We always have the option either source it internally through our generation or source it from the market, depending on what's the most optimal way for us.	
And then number three, you're always going to see the impact of that business in our earnings. So transparer clarity, visibility, it is important. So while I can – I mean, in a contango market, on a backwardated market who you are doing a term deal, is there – are you levelizing the curve, and it creates a different dynamic? Yes, of course. But I mean, the most important thing here is supply. We are trying to lock in a margin through the term the deal and we want to make sure that supply and the – I guess the C&I deal, the revenue line and the cost is pretty consistent.	en of
Ali Agha Anglest Sun Trust Robinson Humphrou, Inc.	\bigcirc
Analyst, SunTrust Robinson Humphrey, Inc. Okay. Thank you.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A

Thank you.

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Operator: Thank you. Ladies and gentlemen, this concludes our question-and-answer session for today. It is now my pleasure to hand the conference back over to Mr. Mauricio Gutierrez for any closing comments or remarks.

Mauricio Gutierrez

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

Thank you. Well, thank you very much for your interest in NRG and look forward to talking to you in the coming weeks. Thank you.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program.

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