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NRG Energy, Inc. (NRG)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the NRG Energy, Inc., Business Update Call. At this time, all participants' lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to Mr. Kevin Cole, Head of Investor Relations. Please go ahead, sir.

Kevin L. Cole

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

Thank you, Catherine. Good morning, and welcome to NRG Energy's business update call. This morning's call is being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

Please note that today's discussion may contain forward-looking statements, which are based upon assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor, 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.

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. Good morning, everyone, and thank you for your interest in NRG. Also, on the call and available for questions we have Gaetan Frotte, our Interim Chief Financial Officer; Chris Moser, Head Of Operations; and Elizabeth Killinger, Head of Home Retail.

My prepared remarks will be shorter than normal to allow for Q&A. Today, we are withdrawing our 2021 financial guidance. We are providing an interim update on expected financial impacts from winter storm Uri, and we are committing to using our financial flexibility to protect our customers while creating shareholder value through this period of uncertainty.

First on guidance, based on new information that have become available since our last earnings call and given the uncertainty in Texas regarding regulatory activities, counterparties, and other market participants related to winter storm Uri, we are temporarily withdrawing our 2021 guidance. These impacts and the related uncertainty are out of the scope of our current guidance ranges. And we are unable to reasonably forecast the total full-year financial guidance at this time. We do these in abundance of caution and in line with our commitment to transparency.

As we discussed on our fourth quarter earnings call, our previous guidance range was established using estimated settlement data, counterparty risk expectations and ERCOT default allocations. Today, I will provide a preliminary update on those key drivers. To be clear, none of these estimates are final and are subject to significant adjustments, including repricing and ERCOT default allocation mitigation actions.

The total estimated financial impact from our previous guidance is $750 million. I want to start with settlement data, which is about half of this number. We base our regional estimate on the seven-day preliminary settlement data from ERCOT. Over the past two weeks, we now have received resettlement data for 99% of residential load and just over 80% of C&I load. We believe our current estimate to be reasonable, but it is still subject to changes, given continued resettlements as small moves in real life load are amplified by prices [indiscernible] (03:55) of $9,000 per megawatt hour.

Next, on ERCOT default allocations, as you know, this number is a function of payment defaults to ERCOT that are spread across all market participants, and as such, are not controllable. Our previous assumption was based on $1.3 billion of ERCOT defaults. The latest publicly reported number from ERCOT now stands at $3.1 billion, which represents approximately 15% of the financial impact. The total ERCOT default allocation is a public number that investors can monitor. Finally, the balance of the impact is an increase in uplift charges to load, changes in ancillary payments to generators and natural gas adjustments.

I want to be as clear as possible. While we have received a significant amount of data and updated our estimates, there remains significant uncertainty. The Texas legislature PUCT, IMM and ERCOT are considering a number of repricing deals and other mitigation measures that could materially impact our 2021 financial estimates. Details matter here. And it will take time to fully understand the positive and/or negative impacts by potential changes in the market. We are committed to providing you additional clarity on the first quarter earnings call.

Now with respect to capital allocation, the magnitude of the financial impact could delay the achievements of our investment-grade credit metrics to 2022. We remain committed to these metrics and will continue to work closely with the agencies to achieve our goal of investment-grade credit ratings.

Before opening it up for Q&A, I want to reiterate that our business is strong and we are best positioned for success in the future. We believe this one-time event will only improve the resilience of our business, the long-term strategy of moving closer to the customer and the strength of the ERCOT market. This unprecedented event and the negative financial impacts are disappointing to everyone at NRG. We will work hard to mitigate the impact of this historic storm and to emerge stronger than ever.

So with that, Catherine, we're ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Julien Dumoulin-Smith with Bank of America. Your line is open.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Good morning, team. Thank you for the time. Wanted to check in, can you speak a little bit more to the various puts and takes vis-à-vis the timelines resolution? I hear you with respect to the C&I; it sounds like some of that is still ambiguous. But what are the biggest drivers and the timing for getting some resolution independent of repricing?

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

A

Yes. Good morning, Julien. Well, as I said, we received new information – new resettlement information from ERCOT. I would say, we have now all of the residential – 99% of the residential load; 80% of the commercial and industrial load. My expectation is that in the next couple of weeks, we will have some resolution around that.

Obviously, the second big driver is the default allocation on ERCOT, that is a very widely known number. And we continue to monitor that. The third one is just the uplift charges or reliability charges that we have seen from ERCOT and the way ERCOT run the system particularly on Thursday, on the morning of Friday, which, as we have seen, an increased load from the resettlements. Obviously, that cascades across the costs that we have been, I guess, impacted by it. I would say that those are the main drivers. The timeline, I would characterize that as the resettlements we should have it in the next couple of weeks for C&I.

Now, having said that, obviously, that's independent of repricing and any mitigation efforts that ERCOT can take around defaults and how to – the impact of these uplift charges to load serving entities. That will take longer time. The cone of outcomes of that is, as you can appreciate, incredibly wide. And as I said on my remarks, details matter here. My expectation is that the number that we have put in front of you today, the way I would characterize it is, perhaps, it has a moderate downside and significant upside depending on how – I guess, what ERCOT and the PUCT and the Texas legislative ultimately decide. It's going to have a pretty significant impact.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

And, Mauricio, just to clarify, when you say the higher impact or a smaller impact, that's a smaller number, right, in terms of the bias?

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

A

No, if you look at the financial impact today, I think the way I would characterize given the information that we have already received is that there is a moderate downside, meaning, that it can get slightly worse than it is today, but it can meaningfully get better depending on the outcomes of some of these efforts.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

Sorry, Mauricio. Also, do you support repricing at this point? What's the company's stance? And do you have an estimate for what that would do again understanding that there are no specifics as of now?

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

Well, first, I believe in the integrity of competitive markets are necessary for the long-term benefit of our franchise and for consumers as a whole. So I don't support repricing. I think we need to make sure that we maintain integrity of competitive market. I think that is in the best interest of our business and in the best interest of consumers and shareholders to have some minimum government intervention as possible on these markets.

So with respect to the impact of repricing, it really is going to depend on what is the shape that it takes. If it's only going to be a repricing of the ERCOT settlement, this is going to impact financial markets. If there is going to be fuel recovery, how is ancillaries going to interplay, are we going to talk about uplift charges as well, or is it going to be just – so there is a number of things that will need to be defined before I can answer that question more specifically, Julien.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

Thank you. Take care. Thanks for the time.

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

Thank you.

Operator: Thank you. Our next question comes from Angie Storozynski with Seaport Global. Your line is open.

Angie Storozynski
Analyst, Seaport Global
Q

Good morning.

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

Good morning, Angie.

Angie Storozynski
Analyst, Seaport Global
Q

So just in a simple language, so you basically underestimated your load, is this as simple as that? Because you're saying 50% (sic) [15%] (12:15) of that $750 million is related to the settlement data and it does seem like it's about the allocation of your residential and C&I load. Is that fair?

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

When we actually were – we actually have a shadow estimate of settlements. When we went into the earnings call, we received the seven-day settlement from ERCOT, which was lower than what we had originally estimated. And given that – ours is just an estimate, we took the ERCOT's seven-day settlement as the basis for the update that we provided you in the fourth quarter earnings call.

As we received now the resettlement data, load has gone back up, and I would say, perhaps, in line with our original estimated load. So it almost – we almost felt like it was – there was a whipsaw from the information that we received from ERCOT. But, yeah, that's how I would characterize that, Angie.

Angie Storozynski
Analyst, Seaport Global
Q

Okay. And also, I'm not really sure what actions either ERCOT or PUCT can take at this time. Doesn't it seem like we are against the 30-day settlement mark? I mean, [ph] that should be (13:49) within a day. The House refused to act yesterday. Again, it seems like the biggest impact is the load and the uplift charges not necessarily the default allocation. So I'm at a loss as to where exactly the help could come from.

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

Well, so let me take a step back, Angie. So the first thing is your settlement data. And as I said, the basis for our fourth quarter earnings call was the seven-day settlement data, which we use instead of our – what we had on our shadow settlement process. If you recall, that settlement data is a seven-day, 55 days and 120 days. So what ERCOT has done has accelerated that 55-day settlement data and they started to provide that to market participants as fast as they could. That's what we are discussing today, because we have new information from ERCOT around these accelerated resettlement data.

Now, my expectation is that this is going to be finalized in a couple of weeks, specifically around the commercial and industrial load, which – that has a trickle effect, because it's not just the load that you're serving but also the uplift charges that – and the default allocation that is spread out depending on the amount of load that you were serving there at the time. Now that's the first thing I would say.

The second thing that you mentioned was around repricing. And there is just tremendous amount of uncertainty. As you know, there is not just one deal, but there is a number of deals – I think, 20-plus deals right now that have been introduced. So we're monitoring the situation in Texas. But given the level of uncertainty, the lack of details around repricing and the timing of that, I felt prudent to have this interim conversation with our investors and also pull our financial guidance.

Now, what is the shape that repricing can take is unknown. That's why, I think I would be speculating to say what would be the ultimate impact of that. So that's how I would think about repricing, Angie.

Angie Storozynski
Analyst, Seaport Global
Q

Okay. Thank you.

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

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thank you for taking my question. Look, Mauricio, there's going to be tons of questions about what would ERCOT do? What would the legislature do? How do you estimate it? I want to skip those. Let's go three years, five years out in the future. The odds of having a 5-degree day weather event in Texas for four or five days in a row is highly unlikely. But what I do know is [ph] that things (16:58) happen.

Whether it's 115 degrees in Texas in the middle of the summer or 5 degrees in the winter, just things happen. How do you think and how is the board thinking about what do you do going forward to protect yourself from abnormal events like this when we're – you're going to lose 25%, 30% of this year's EBITDA in five days. The question is maybe it wouldn't be that bad. But what structurally needs to change within your business mix, within your asset mix to protect from this happening in 2025 or 2027?

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

A

Yes, Michael. Good morning. The first thing I would say that the probability – the ERCOT system is designed for dealing with extreme events during in the summertime. And I think the system has been incredibly effective over the past 20 years in dealing with summer peaking events. We have established record summer peak loads over the past three or four years. And I think the system has performed pretty well.

The winter peak, it was something that the system was not designed. So one of the outcomes of these, I think, is just going to be greater resiliency from the system both in the summer and the winter time and for more extreme weather events. I have said in the past that I think the measures that the Texas legislative is taking in terms of weatherization, not just on the power generation business, but also the natural gas, fuel supply system and the transmission and distribution of delivery system is important.

The second thing is communications. I think we are really good at communicating weather events – extreme weather events, whether it's hurricanes, or heat waves, we need to do the same for winter storms that I think that's going to improve. I think there is an opportunity to improve communications between power and gas coordination. We have said that between REPs and TDUs. There's a number of opportunities.

And then, finally, market design. And I think when you put all of these things into context, I think the probability that we're going to experience something like we experienced in terms of the impact to the energy system is going to be reduced significantly.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Right.

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

A

Now having said that, the things that are within our control, as I take a step back and how the company performed in terms of balancing our retail load and our supply, it was – actually it was in balance. Most of the cost that have impact – or most the impact, the financial impact that we're talking about today, it has to do with how ERCOT ran the system, the defaults from market participant, the uplift charges that we have received and how the grid was operated.

And so I just want to make that clear. In terms of our balance of the load and generation, it was pretty, pretty – I would say, pretty balanced. Now, I think the approach that we have taken in terms of the integrated model is the right approach for the long term. Our diversified supply strategy continues to be the right one in terms of a mix of physical generation assets owned, bilateral contracts and financial contracts. I think it has served us well. Certainly, there are lessons learned around how to deal with our counterparty performance on the contracts, but that's something that – it can be done.

And then, finally, I will say, our strategy on getting closer to the consumer has never been or proven to be more important and more meaningful than these past couple of weeks. Consumers are going to find additional resiliency at their homes and their businesses. And that creates an opportunity for us as a company that already has a relationship with the consumer to be able to sell secondary products for these consumers and extend our relationship, reduce attrition, increase the customer lifetime value.

So I actually think that what – the direction that we're taking and the opportunities that are in front of us are going to be very meaningful. And in a odd way, I think this event is going to serve as an accelerator or as a catalyst to highlight that strategy is the right one.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you. So two follow-ups. One is longer term, which is, do you think NRG needs to own more of the physical generation used to supply your retail customers so you can control the reliability of that generation? That's question one. That's long term. Question two is short term, which is in the 30 days since the event, has your customer count in Texas shrunk or grown?

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

A

Yes. So the first one, I will say that, no, I don't think you need to – we need to change the strategy of a diverse supply mix. We have always said that we want to own some generation and we want to be able to control it, but we can actually get a lot of the characteristics of owning generation through bilateral agreements. And then, finally, we will have some financial hedges. Keep in mind, a lot of people have talked about the intermittency of wind and solar. I will say that even our renewable strategy around the capital-light, solar is a great hedge during the summertime because [indiscernible] (23:05) but we all recognize the intermittency of wind and solar. And our contracts are going to be as per the use. We're never going to think of these contracts as firm hedges.

So I will say that what do we have today in terms of our supply is the right one in the longer run. And it is going to depend on what creates more value for our integrated model. Obviously, we're going to take all the risks around it, but I feel very confident with the approach.

With your second question around customers, what I will say is, I believe this has created an opportunity for very well-established brands like ours to get additional customers, not only we're participating as a polar provider of last resort and we have received some customers. But, at the same time, I think consumers are going to have some sort of flight-to-safety to the brands that they know, to the brands that they trust, that they're solid. And that will benefit our business overall.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you, Mauricio. Appreciate it.

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

A

Thank you, Michael.

Operator: Thank you. Our next question comes from Steve Fleishman with Wolfe Research. Your line is open.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. Hi. Good morning.

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

A

Good morning, Steve.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Hey, Mauricio. So just one easy clarification, the ERCOT default allocations, was that 15%, i.e., 15% or 50%?

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

A

15%.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

15%. Okay. Thanks. And then, could you just better explain the uplift to load issue?

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

A

Sure. And so I'll give you my two cents, and then I'll ask Chris to expand on it. But the uplift to load, basically, when you run the system, what we saw in – particularly on Thursday and Friday, the $9,000 price gap is made of few components. One is just the – what I describe as the locational marginal price or the LMP. This is basically reflective of the cost of generators. And then, you have reliability adders. And then, you have administrative adders.

And what we experienced was a situation where LMP was very low. We have really high reserves at that point, I guess, in expectation that load was going to start coming back in, which created these very – I would say, almost – I've never seen the grid run that way, where you have a lot of reserves, your LMP is really low, but you're printing [indiscernible] (26:21). So what that means is that all that administrative and reliability adders basically get socialized to load serving entities and $9,000 when you have very low LMPs can be very punitive to [indiscernible] (26:37).

But, Chris, you want to add something here?

Chris Moser
Head Of Operations, NRG Energy, Inc.

A

No. I think it's fair to say that you covered it. It was a situation where there were thousands of megawatts on reserve, kind of, online and men getting paid $9,000 of uplift, but not generating energy. This is what I would call an unnatural state of affairs, because you end up in a situation where the more reserves that are online, the higher the uplift price is, because the LMP and the administrative add or the [indiscernible] (27:10) are both depressed in that situation.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah, okay.

Chris Moser
Head Of Operations, NRG Energy, Inc.

A

So it's a weird – when Mauricio said, hey, there's plenty of stuff to fix in the systems, right. There are physical things to take like, hey, let's weatherize gas facilities. Let's weatherize gas generation. Let's weatherize power generation. This is something on the pricing side of the system, I think, that probably needs to be looked at and fixed, right.

One of the things that they didn't see was – one thing that probably needs to be fixed is if you are shedding load, you should probably be at the cap. But in no circumstance would I argue that there is – that we should have the more reserves you've got, the higher the uplift price should be that violates several economic tenants. So it was unnatural state of affairs that we haven't seen before and don't expect to see very often probably need to [indiscernible] (28:02).

Steve Fleishman
Analyst, Wolfe Research LLC

Q

And just from a disclosure standpoint, these uplift costs became clearer between your first disclosure and this one.

Chris Moser
Head Of Operations, NRG Energy, Inc.

A

Yeah. Both the pricing and quantity, yeah.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay.

Chris Moser
Head Of Operations, NRG Energy, Inc.

A

If the load goes up like Mauricio said, it rolls through as well.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Great. And just on repricing, at a high level, it would seem that the change in the resettlement made you essentially more short tower, and even though you're opposed to repricing, to the degree that the resettlement made you more short, could repricing actually be financially helpful versus what you're disclosing because of that?

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

Steve, it's very difficult to say that it's going to – what is the impact, right? Because repricing – you're talking about repricing like it's a known quantity. And repricing does not mean that we only change the settlement price of our ERCOT. Does that mean that generators that – at what price are you going to change that? You're going to change it at LMP? Or are you going to make whole generators that perhaps – the generation costs were significantly higher than LMP?

We know that that happen because of these weird dynamics that Chris was saying, generators were being just price takers, and not necessarily reflecting the true cost of fuel. Does that mean that the financial markets will resettle based on this new index? There is a number of things that need to be defined before I can tell you with certainty, yes, it's going to be better by a little or by a lot. And what I'm saying is, that cone of outcome is really dependent on how do you define the re-pricing scenario.

Steve Fleishman
Analyst, Wolfe Research LLC
Q

Okay. Last question is just high level, given all these different – this is obviously a unique event, but you are transacting in ERCOT daily and into 2022 and 2023, I assume. And how is it impacting if it anything how you're thinking about transacting in future years like all these decisions kind of impact how you think about the market structure?

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

Yes. So the first thing is...

Steve Fleishman
Analyst, Wolfe Research LLC
Q

So I just – yeah...

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

Yeah. Go ahead.

Steve Fleishman
Analyst, Wolfe Research LLC
Q

No, that's it. Sorry. Thanks.

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

Yeah. Well, the first thing is, how do we think about the market going forward, right? That's the baseline. And I think the market is going to be stronger. I think there's going to be changes, as I said, both in terms of resilience of the energy system, in terms of coordination on communications, in terms of market design. So what I expect is a healthier market, perhaps, a more resilient market going forward.

With that foundation, I think that the strategy that we have [indiscernible] (31:14) an integrated model with a focus on getting closer to the consumer has a tremendous opportunity as consumers with these events and perhaps other events look at additional resilience in their homes, and perhaps, to – for distributed technologies. That creates a tighter relationship with our consumers, and perhaps, a longer lasting relationship with our consumers, that is both beneficial to them and beneficial to us.

So that's how I think about the opportunities. What is the foundation, what is the market construct, and is that market construct better or worse, and I think it's going to be better. Number two is our strategy, still a valid – and what are the opportunities that we see. And I think it further validates the move that we have done around – to get closer to the consumer. So does that provide you, Steve, the – how I'm thinking about it longer term more systematically?

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. Thank you. So just one last question on trying to understand the resettlements. So if I understand correctly, it sounds like, from the first settlement to the second settlement estimate, there was a downward move maybe in C&I load, which then created an upward adjustment to residential [indiscernible] (32:57).

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

A

No.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay.

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

A

No, what I would describe it is, we always do a shadow settlement. And we are evaluating the load that we serve. That estimate – when we receive the seven-day settlement, preliminary settlement from ERCOT, we use that because we are – we appreciated that our shadow process is just an estimate. So we use that. And that was the basis for our fourth quarter earnings calls.

After the fourth quarter earnings calls, we received this resettlement from ERCOT, which I will describe as the acceleration of their 55-day resettlement process. And that one, locking in higher both for residential and C&I that has had the impact that I just described, not just in terms of quantity, but also in terms of our load share and everything that falls from that, which is default allocations, which is uplift and reliability cost allocation.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Got it. Okay. Thank you.

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

A

Thank you, Steve.

Operator: Your next question comes from Stephen Byrd with Morgan Stanley. Your line is open.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Thanks so much for the time. I guess, just going back to a core question, which is the potential to – for the legislature or [indiscernible] (34:30) order a repricing downward of power on Thursday and Friday. I respect the idea that it's complex in terms of how they might implement it. But if we can keep it to its simplest form, I'm just – I want to make sure I understand directionally the impact.

If, in its simplest form, the price of power is reset lower across the board, and just the price of power, so no other adjustments are made. But the price of power is reduced significantly on Thursday and Friday, could you just speak directly to the impacts, to the best of your knowledge, on what that would do?

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

A

Well, Steve, if the price of power gets resettled lower, are you saying just ERCORT? Or are you saying that that will...

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

ERCORT.

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

A

...rebase or reset the financial markets?

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Just the ERCOT price at the LMP, just across the board mandated that it'd go much lower than the $9,000.

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

A

I couldn't answer that because we have both generation and retail, and they both have an impact on it. But, one – it's really, I would say, perhaps, improbable that you're just moving one of those levers without recognizing all the other ones. And we would just be speculating, Steve. You have seen the hearings and the testimony and also the opinions from legislators, all of them have said, well, if you move prices one direction on electricity, then what happens to fuel? How do you make generators whole, if this price is going to be below the generator?

So I don't think it's a plausible scenario just to say, well, just move this thing and forget about all the other ramifications in the market. And I think that's what is being debated as we speak right now in both the Senate and the House [indiscernible] (36:28).

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Yep. Understood. Now it's very complex and there are other impacts, too. Now, if power is not repriced, so power remains where it was set. Is it possible that other retailers face financial distress, so that sort of $3.1 billion does, in fact, grow significantly? Or what's your best sense of sort of whether this – you could see kind of a contagion effect or further spread of the damages to other retailers that may have not filed at this point, because we haven't had a settlement yet?

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

A

Well, I think the settlements are coming through right now. And as I said, almost 100% of residential has already been resettled and 80% of C&I. So I would expect that most of the other market participants have received a similar amount of information than us and they have evaluated that. I can't speak on to what does that mean to other market participants. I would expect that if they would have been impacted, that information would actually be known by now, given the financial situation of these REPs and whether they were negatively impacted or not, but I can't speak on what other companies – the impact on other companies at this point.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Understood. That's all I had. Thank you.

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

A

Thank you.

Operator: Thank you. Our final question comes from Durgesh Chopra with Evercore ISI. Your line is open.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Good morning, guys. Thank you for taking my question. I just want to go back...

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

A

Good morning, Durgesh.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Good morning, Mauricio. I just want to go back to the ERCOT default $3.1 billion number. Are we – so you mentioned, just step back 15%, one-five, of your $750 million is related to that. That translates into a $100-plus million of that $750 million, that's like 4% of the overall $3.1 billion ERCOT default number. Is that a good rule of thumb, Mauricio, to use as that $3.1 billion moves around [indiscernible] (38:47).

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

A

No, Durgesh. I think what you need to look at is, we already have some – during the fourth quarter earnings call and I think we provided that number, Gaetan, I think it was – the original was $1.3 billion...

Gaetan Frotte
Senior Vice President, Interim Chief Financial Officer & Treasurer, NRG Energy, Inc.

A

That's right.

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

A

And we already have that. So the $750 million is just the incremental impact. So the way you need to think about it is, we are now $750 million, so 15%, is just about shy of $100 million. So if you think about the total number around this is around $200 million of ERCOT default impacting the company.

Does that...

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Yeah.

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

A

Okay.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Yes. Absolutely – crystal clear. So $200 million of the $3.1 billion is really your share and that's a good...

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

A

I would shy of – yeah, shy of $200 million. Yeah.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Okay. Perfect. Perfect. And then, maybe just – I know this is kind of going to be painful, but qualitatively, can you talk about what the upsides are? I just heard your explanation of repricing. It looks like it may go either way. But, in your commentary, you mentioned modest downside to the estimates, the $750 million, but there could be other good offsets. Maybe just qualitatively list out those good offsets for us.

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

A

Yes. Well, the first one is just we need to just go through and finalize settlement data, right? We need to have a really strong baseline and so we can actually calculate all the other trickling effects, which is, what is the default allocation to us, what is the uplift charges that have been allocated to us. So the first one is we need to just get through this resettlement period.

The second thing is, obviously, repricing and depending on the shape that it takes can be a meaningful positive to the company. But I just don't have any visibility on what that is, and it's going to depend on what shape it takes, if it's only ERCOT or if it's ERCOT plus financial markets plus fuel.

The third one is, as you know, there has been a lot of discussion around the ways to mitigate the default allocation as well as uplift charges. And we're going to work with the Texas legislature to figure out a way to mitigate these into load serving entities. So it doesn't necessarily weaken the players that remain in the ERCOT market. And I would say that.

And then, finally, just counterparty – the counterparty risk that I mentioned on the fourth quarter earnings call. If there is an opportunity for us to recover that over time counterparty performance, we're going to do it. So I would – I just listed it in terms of – I would think the cone of outcomes. And some of them are going to be known much sooner. And some of them will take some months before we can provide more clarity. But what I will tell you is we are absolutely committed to mitigating the impact and making this number as small as we can in the weeks and months to come.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Understood. Thank you for patiently answering our questions. Appreciate the time.

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

A

Thank you, Durgesh.

Operator: Thank you. And there are no other questions in the queue. I'd like to turn it back to Mauricio Gutierrez for any closing remarks.

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

Well, thank you and thank you for your time today. As you know, we're all disappointed at NRG. And I just want to reaffirm our commitment that we will do everything we can to mitigate these adverse financial impact. That still is an estimate and we will try to do everything we can to change it for the better of the company. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.