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NRG Energy, Inc. (NRG)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to NRG Energy, Inc.'s Fourth Quarter and Full-Year 2024 Earnings Conference Call. At this time, all participants are in a listen only mode. After the speaker presentation, there will be a question and answer session. [Operator Instructions]

I would now like to hand the call over to Kevin Cole, Head of Treasury and Investor Relations, to read the Safe Harbor and introduce the call.

Kevin L. Cole
Senior Vice President, Corporate Finance-Treasury & Investor Relations, NRG Energy, Inc.

Thank you. Good morning and welcome to NRG Energy's fourth quarter and full-year 2024 earnings guidance. This morning's call is being broadcast live over the phone and via webcast. The webcast and presentation and the earnings release can be located in the Investor section of our website at www.nrgcom 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 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 earnings release.

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And now with that, I'll now turn the call over to Larry Coben, NRG's Chair, President and CEO.

Lawrence Stephen Coben

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

Thank you, Kevin and good morning, everyone. Joining me today are Bruce Chung, our CFO; Rasesh Patel, Head of NRG Consumer; and Rob Gaudette, Head of NRG Business who will provide an update on our large load and data center strategy. Other members of our team are also on the call and available for questions.

2024 was a defining year for NRG. Every part of our business performed at a high level and the momentum behind our strategy continues to build. We exceeded the high-end of our raised EPS guidance range and delivered record financial and operational results. This marks our second consecutive year of outperformance, reinforcing the strength of our platform and the power of our disciplined execution.

We are well-positioned to deliver at least 10% EPS CAGR growth through 2029 by the base plan that we provided you on our last earnings call. Beyond that plan, we see significant upside from power market trends, site monetization and our data center and other large load strategy. We are unlocking these upside opportunities on multiple fronts by establishing an integrated partnership to accelerate new natural gas generation development, by signing multiple Letters of Intent with data center developers and by advancing our 1.5 gigawatts of brownfield development projects in Texas. These initiatives strengthen our platform and create significant long-term value.

Turning to slide 5 and our 2024 results. We delivered record financial performance while advancing key strategic priorities. Our adjusted EPS of $6.83 per share exceeded the midpoint of our increased guidance range by 8% and was 45% higher than 2023. We exceeded targets across all key financial metrics, achieving the highest adjusted EBITDA and free cash flow before growth in our company's history. Kudos to everyone on the teams that made that happen.

Strong execution across the business drove these results, supported by expanded power and natural gas margins in the East and West, customer growth in the East and customer growth and expanded margins in Smart Home. Texas also delivered with earnings approximately $150 million per year, higher year-over-year when adjusted for asset sales and planned maintenance despite much milder weather. This reflects the strength of our integrated platform and the expertise of our commercial operations team in capturing value and driving results.

For the ninth consecutive year, we achieved top decile safety performance. We also strengthened our reporting disclosures, achieved our synergy targets, and introduced a five-year growth plan. We also continued to advance major strategic initiatives. Our home-based essentials pilot delivered strong results, supporting the announcement of a 1-gigawatt Virtual Power Plant partnership in Texas. We also made considerable progress on our 1.5 gigawatts of shovel-ready brownfield development projects in Texas, with two of those in TEF due diligence. T.H. Wharton remains in due diligence and is on track for completion in 2026. Cedar Bayou 5, a 689-megawatt combined cycle project was recently selected for TEF review.

Our third site, Greens Bayou 6 is eligible for TEF and remains a viable capacity option. Notably, turbines are either on site or manufacturing slots are secured for all three of these projects making them the most advanced in the state. We remain laser-focused on operational excellence. You can see this across the board from our plant availability statistics to our leveraging of AI to enhance operations and improve customer service across our Business and Consumer segments. We also successfully entered the Lubbock, Texas retail market and have already become its largest provider. Disciplined capital allocation remains a cornerstone of our strategy. In 2024, we returned $1.3 billion to shareholders, increased our dividend by 8% and achieved investment-grade credit metrics a year ahead of schedule.

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Turning to slide 6. We are building on two consecutive years of strong execution. We are reaffirming our 2025 guidance and we're well-positioned to continue delivering on our long-term growth plan. Our business is stronger than ever and the opportunities have never been greater. As discussed in our November's earnings call, we are targeting at least 10% EPS CAGR through 2029 before considering additional upside opportunities. Our base plan is primarily driven by $750 million in run-rate adjusted EBITDA growth and $8.8 billion of capital return to shareholders over the next five years.

Beyond this base plan, we have multiple levers to increase additional value that are not included in that plan. These include premium data center power purchase agreements, execution of our data center site strategy, exposure to rising power prices and expansion of our supply portfolio. Our priorities for 2025 are clear. We will execute our organic growth plan, launch our Virtual Power Plant program, return capital to shareholders and advance these key upside opportunities. With a strong foundation in place, we are positioned to drive exceptional shareholder value and close the gap to our fair valuation.

With that, I'll hand it over to Rob Gaudette, Head of NRG Business, for an update on our large load and data center strategy.

Robert J. Gaudette

Executive Vice President & President-NRG Business and Wholesale Operations, NRG Energy, Inc.

Thank you, Larry. Turning to slide 7. The power sector is undergoing a structural shift driven by accelerating electrification, industrial expansion and the rapid scaling of AI and data centers. This transformation is exciting, it's real, and it's fueling what we believe to be the start of a power demand supercycle. NRG is uniquely positioned to capture this value. Our commercial natural gas and power platform and our development team are unlocking significant opportunities. We're pairing these capabilities with strategic partnerships to further solidify our leadership. Over the next few slides, I'll take you through the state of the power markets, the advancement of our data center and large load strategy and how our portfolio is geared to benefit significantly from market tightening.

Beginning on slide 8, it is clear we've entered a new era of power demand growth. Markets that once saw only modest growth or even declines are now experiencing significant and sustained increases. All indicators point to continued acceleration in the years ahead. This surge is being driven by large-scale industrial onshoring, oil and gas expansion, the electrification of transportation in the home and an unprecedented wave of data center development. ERCOT and PJM are at the forefront of load growth. Since November, ERCOT's large load interconnection forecast has expanded by 30%, reinforcing Texas as the nation's fastest-growing power market. With low energy costs, a business-friendly regulatory framework and the ability to bring projects online quickly, Texas is uniquely positioned to capture this demand at scale.

PJM is also a key market, home to some of the most established data center hubs in the country, with the signs of the market tightening now and into the future. The impact on supply is clear. Reserve capacity is tightening as new load comes online. While not every new project will move forward as planned, even a fraction of this growth would significantly impact supply-demand dynamics. The structural forces driving market tightening are still taking shape and we remain in the early stages of this transformation. The companies that scale efficiently, optimize supply and act decisively will be best positioned to capture the opportunities ahead. We like where we stand.

Turning to slide 9, power demand is rising as the grid becomes increasingly dependent on intermittent resources. In competitive markets, over 90% of the planned capacity additions consists of solar, wind or battery storage, while only 26 gigawatts of natural gas capacity is queued in ERCOT and 8 gigawatts in PJM. At current growth projections, this falls well short of what is needed to keep pace with accelerating demand. Compounding the

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issue, a large share of the projects in the queue historically never reach completion. This is a structural challenge that will not be resolved quickly. The primary constraint is the limited availability of two essential parts of building thermal generation. First, critical components. Turbines and other key equipment for new, flexible natural gas generation remain in short supply with no meaningful relief expected for years to come. Second, the human component. Experienced thermal development teams and EPC firms are at capacity already. While other technologies such as small modular reactors are in the new cycle, they're still in early development and unlikely to be commercially viable before 2035 at the earliest. With constraints on new, dispatchable capacity and shrinking reserve margins, the value of existing flexible generation continues to grow.

Turning to slide 10. Last year, we discussed this with you, this trend and its challenges. We formed a dedicated team, spanning commercial, engineering and operations to maximize the value of our site portfolio and we've made significant progress since then. Until now, we've discussed these sites at a high level. Today, we're very excited to break down how we're prioritizing them for near-term development. They fall into three categories. First, we have top-tier premium locations that are our highest priority. These are ideally positioned for front-of-the-meter and behind-the-meter solutions, and many can incorporate onsite generation, making them highly attractive for premium long-term power agreements. Within this top-tier group, some sites stand out as super hosts; large-scale locations capable of supporting multiple gigawatts of data center demand, gigawatts of new, dispatchable capacity and large-scale renewable resources. These are ideal for hyperscalers, offering the scale, infrastructure and market access required for major projects. We are actively engaged in discussions and they remain our primary focus for near-term execution. We believe there are over 7.5 gigawatts of opportunity across this first category of sites.

Beyond this, we believe we can support another 7.5 gigawatts of capacity. We have eight sites and are exploring greenfield options. This group offers strong opportunities but has specific constraints that will take additional time to resolve. These are typically best suited for medium to small data centers. In total, we see at least 15 gigawatts of potential capacity, an incredible opportunity and cements us as a leader in this space. We're already advancing the first projects and as evidenced by the announcements today, we're taking the next step to accelerate development at a speed and scale no one else can match.

Turning to slide 11, we're announcing a landmark, fully integrated collaboration with GE Vernova and Kiewit through its subsidiary, TIC, bringing together world-class turbine manufacturing, development, engineering and construction expertise and energy markets leadership to create the most advanced, end-to-end joint development platform for large load energy solutions. NRG, which will own and operate the plants, brings deep energy expertise, prime development locations and a proven track record of development execution while GE Vernova provides best-in-class turbine technology and Kiewit delivers industry-leading engineering and construction capabilities. With planned turbine access, coordinated EP support, ready-to-build sites and a fully integrated development approach, we can deliver power faster, more efficiently and with greater certainty than anyone else in the market.

Speed-to-market wins. The platform is already delivering results. We have secured two slot reservation agreements with GEV for their 7HA gas turbines, supporting 1.2 gigawatts of new capacity online in 2029. This is an addition to our already announced 1.5 gigawatts of shovel-ready capacity. We are actively working with several premium data center operators for this initial capacity and of course the additional value of our related sites. We're initially targeting 5.4 gigawatts of capacity by 2032.

Turning to slide 12, we're also advancing our go-to-market strategy through multiple LOIs with data center developers to bring their facilities to our sites and supply power to their sites. They recognize the strategic value of our locations and our capabilities. We are strategically positioned to not only meet their long-term power needs,

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but also develop, build and operate onsite generation where needed. We can move with speed and certainty. Our capabilities position us to capture strong premiums on our power agreements. This premium is driven both by the strategic value of our site and the strength, breadth and flexibility of our supply portfolio. To quantify this, we're seeing long-term revenue rates ranging from $70 to $90 per megawatt hour, depending on site location, structure and project attributes. We are very proud of what we announced today. Not only have we performed incredibly as a company this past year, we have moved from talking about our data center strategy to executing on it. The key takeaway is clear. We have the team, the strategy and the partnerships to lead this energy revolution. With unmatched speed, execution and market positioning NRG will create long-term value and this is just the beginning. Today's announcement set the stage and we look forward to sharing more as we continue to execute.

As we turn to slide 13, I want to highlight again another key advantage of our platform, the embedded value in our Texas generation fleet and the opportunity it presents as market conditions evolve. Our upside extends past site optimization and premium contracts. Rising power prices benefit our existing portfolio. The latest ERCOT Capacity, Demand and Reserves report confirms what we've been tracking. Market conditions are tightening rapidly. As this unfolds, our generation will create additional earnings. Our multiyear outlook, previously provided to you, assumed a conservative $47 per megawatt hour for around-the-clock Texas pricing through 2029, yet forward market pricing is already trading in the low $50s, signaling early benefits for our platform and more potential. As an example, at $60 per megawatt hour around-the-clock, our generation portfolio would produce $590 million in additional margin on an open basis.

We positioned our portfolio to benefit from the power demand supercycle. NRG is bringing the capabilities of our commercial platform and the benefits of our generation portfolio. The go-to-market strategy with data center partners and the structural supply solution with GE Vernova and Kiewit to solve customers' challenges and capture the value of the opportunities in front of us.

With that, thank you for your time. I'll now turn the call over to Bruce for the financial review.

Bruce Chung

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

Thank you, Rob. Turning to slide 15, I am pleased to share that NRG had another outstanding year in 2024, executing at exceptionally high levels, both operationally and financially across the company. Our 2024 adjusted earnings per share of $6.83 came in above the raised guidance range, beating the midpoint by nearly $0.50. This represents an increase of $2.11 per share, or 45% year-over-year growth from the $4.72 per share delivered in 2023.

Strong performance by our businesses accounted for a $1.46 per share of the year-over-year growth, while the remaining $0.65 per share came from the execution of our share repurchase program in 2024. We repurchased close to $11 million shares at an average price of $87.57, representing 5% of our shares outstanding at the beginning of 2024. As a reminder, we introduced adjusted EPS to provide you with additional insight into our profitability and growth and the strong results we are reporting today highlight the strength of NRG's earnings profile and the power of our capital allocation framework.

NRG's full-year 2024 adjusted EBITDA was $3.8 billion, an increase of $470 million over 2023 results. We also delivered $1.4 billion in adjusted net income and $2.1 billion in free cash flow before growth. Each of these key financial metrics exceeded the midpoint of our raised guidance ranges, marking the second consecutive year of such outperformance. Our East and West segments benefited from expanded power and natural gas margins, driven by lower supply costs and our East segment also benefited from increased customer counts.

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In Texas, year-over-year results were lower due to the impact of asset sales closed in 2023 and additional opportunistic, preventative maintenance taken at our plants. After adjusting for these items, Texas's EBITDA was higher by approximately $150 million compared to 2023. Our ability to deliver higher year-over-year results in Texas despite the milder weather in 2024 is a real testament to the expertise of our commercial operations team and the strength of our integrated platform.

As you know, we have invested significantly in our plants over the past few years and these investments have made a real impact on our financial results. Our In-the-Money Availability factor, which now stands close to 90% across NRG's full portfolio, is the highest it has been since 2019. Our diversified generation and supply strategy continues to be one of our core operating advantages and gives us confidence that NRG can deliver consistent financial results through a variety of market conditions.

Turning to our Smart Home segment, the business generated excellent results with a 5% increase in net subscriber count and improved recurring monthly service margin of 83% and nearly 90% customer retention, which marks an all-time high for the business. In 2024, Smart Home achieved its first full-year financial results under NRG's ownership and the business continues to perform and add value across our Consumer portfolio.

From a free cash flow perspective, 2024 free cash flow before growth exceeded the midpoint of our revised guidance, resulting in $10.36 of free cash flow before growth per share. Our 2024 free cash flow before growth per share represents 12% growth over 2023 actuals and over 20% growth over the midpoint of our original 2023 guidance. Lastly, we are reaffirming our 2025 financial guidance across all financial metrics. Our detailed guidance, including target ranges for adjusted EPS, adjusted net income, adjusted EBITDA and free cash flow before growth can be found in the Regulation G table in the Appendix.

Turning to the next slide for an update on our 2025 capital allocation. We ended 2024 with $525 million in unallocated excess cash, largely driven by the Airtron divestiture that closed late in the year, bringing our starting point for capital available for allocation in 2025 fiscal year to $2.6 billion. In 2024, we maintained focus on executing our against our liability management and capital allocation programs, yielding impressive results, including the early achievement of our targeted credit metrics and the return of approximately $1.3 billion in capital to our shareholders through our common dividend and share repurchase program. The 2025 capital allocation plan maintains our commitments to a strong balance sheet, robust return of capital and strategic actionable growth investments.

Moving from left to right on the page, $365 million will be allocated for ongoing liability management, including the expected retirement of the convertible note which we fully hedged and capped last year. We have approximately $110 million in remaining integration costs related to prior acquisitions and cost synergy programs. After these commitments and consistent with our 80/20 capital allocation framework, we are planning on $1.3 billion of share repurchases in 2025, of which over $170 million have already been executed year-to-date. Notwithstanding the strong performance of our stock over the last year, we still see our shares as an incredibly compelling use of our excess capital. Together with our common dividend of $1.76 per share, which represents 8% growth over our 2024 dividend per share, our total return of capital in 2025 is currently expected to be over $1.6 billion or about 83% of excess cash after liability management and integration costs.

Turning to growth investments, we plan to allocate $130 million towards the completion of the revenue synergy plan we announced at our 2023 Investor Day. In addition, we are allocating $215 million to other growth investments, which includes continued development of our ERCOT newbuild projects. Finally, we are showing $105 million of unallocated capital, which we will allocate over the course of 2025. I look forward to providing you with updates as we continue to execute our plan into 2025.

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With that, I'll turn it back to you, Larry.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

Thank you, Bruce. On slide 18, to reiterate, NRG delivered record earnings in 2024, marking two consecutive years of exceptional execution. The opportunities ahead have never been better or stronger. Our growth plan is well underway, our platform continues to expand and we're creating meaningful, long-term value for our shareholders even before considering any contribution from the significant upside opportunities such as those discussed today. We are making strong progress on several of these opportunities.

Today's announcements showcase our ability to serve the growing needs of both existing and new large load customers at scale. Our strategic agreements with the leading turbine manufacturer, EPC and data center developers position us to meet large load demand with unmatched speed and execution. I am thrilled to share these updates on our data center strategy with you. And as we move forward, we will remain laser-focused on maximizing shareholder value. I must tell you that each of these transactions is unique, shaped by site-specific attributes and customer priorities. This is a competitive space that may not lend itself to regular quarterly updates, so we expect to share progress when there is meaningful news or milestones, either through formal announcements or through our overall growth trajectory. In other words, as excited as I am about these opportunities, you may have to wait for some of the details.

Thank you for your time and continued interest. Operator, please open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Julien Dumoulin-Smith of Jefferies. Your question, please, Julien.

Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Hey. Good morning, team. Thank you, operator. Appreciate it. Nicely done on the results yet again here.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thank you, Julien. Good morning.

Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Good morning to you, guys. Look, key question here, how does the latest announcement position and signal on future opportunities on data centers? And specifically you've announced a series of LOIs here. Given the timing that you're talking about, literally 2026 is around the corner. You've got the supply chain lined up. I mean how long are we really expecting to wait here to translate those LOIs into firmer arrangements? I mean just given the practical need to execute, I would imagine that when you talk about patience here, could this be interquarter? Can you speak to that a little bit? And I got a follow-up on that.

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Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Happy to, Julien. Look, what I don't want to do is at every quarter sit there and try to give people a step-by-step development and tell people this one is 10%, this one is 20%, this one is 30%. It doesn't really make any sense. You've been in the business long enough on the power plant side to know what development is like and development is done when development is done. Having said that, we've talked about having plants in service in 2026, 2028 and 2029. And so you can expect that, working back from those time frames, it's not going to be three or five years before you get these updates. But what I don't want people to do is expect they're going to get an update on the May call six weeks from now, that we've moved this forward X, Y and Z.

I think also, Julien, quite frankly, when we have things to say, something we haven't done historically, we'll put stuff out between quarters as well. We've always historically kind of waited for the quarterly calls to do this but I don't think we need to do that anymore.

Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Got it. Excellent. Thank you. And then can you expand a little bit on the line-of-sight? Obviously, 5 gigawatts-plus with GEV here this morning. What kind of line-of-sight do you have on LOIs there? I mean certainly it's a big and specific number here. Can you elaborate there?

And then also I think one of the comments in your prepared remarks was on TEF. To what extent could you seek to expand your TEF participation as well? It would seem like a ripe opportunity that you've said which you have further sites and further supply chain already established.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Let me take the TEF part first and then I'll go back to the GE, if I may. We do have two of the three shovel-ready projects are in test today. The third one is certainly TEF-ready if TEF – TEF come to us and do that. You might recall that initially it was one per customer and then we were able to enter our second project in that. And if they come for the third one, we'll certainly consider that very, very seriously. So I think from a TEF point of view, we're extremely well-positioned with the shovel-ready 1.5 gigawatts to go forward.

On GE, look, we've already got the two slots. I think that probably tells you that that's where the best line-of-sight is today. But we are – we've been working over the past year on a series of development projects and as we continue to get slots, we'll continue to give you more information about when those projects will be coming online as well. But our goal, as you can see from this update, is to have a significant amount of new capacity online well before 2030.

Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Yes. Absolutely, guys. Nicely done. Speak to you soon. Thank you.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thanks, Julien. Appreciate you.

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Operator: Thank you. Our next question comes from Shar Pourreza of Guggenheim Partners. Your line is open, Shar.

Shahriar Pourreza
Analyst, Guggenheim Partners

Q

Hey, guys. Good morning.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Good morning, Shar. How are you?

Shahriar Pourreza
Analyst, Guggenheim Partners

Q

Good, Larry. Quite an update. Maybe just starting at a high level, can you just confirm the venture to develop the 5.4 gigawatts by 2032? Is it your intention for all those to be fully contracted as they come online or will they be some merchant? Just trying to put the 5.4 gigawatts...

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Yeah. I think...

Shahriar Pourreza
Analyst, Guggenheim Partners

Q

...again with the 7.5 gigawatts? Yeah.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Absolutely. I think the vast majority Shar will be. I won't tell you today what's going to happen for sure over the next five years but the intention would be for that to be contracted. You know that we're not in the business of taking significant amounts of merchant risk. We've always got our C&I book, our retail book and now our data center clientele. So I would expect that all to be contracted or the vast majority of it to be contracted.

Shahriar Pourreza
Analyst, Guggenheim Partners

Q

Perfect. That was the key question. And then just I guess how are you thinking about funding the project? It's kind of a substantial check in a short period of time. How should we I guess think about the ramp-up of the growth CapEx?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Yeah. I mean as we look at it, Shar, between leverage of contracts, with the kinds of people that we're talking about plus our internally generated cash flow, we think we'll be able to pay for all of it out of that. Obviously, there's a lot people who want to be in this business now. And if we can take on some accretive partner capital, we would consider that. And if worst comes to worst, Bruce has agreed to forgo his bonus.

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Shahriar Pourreza
Analyst, Guggenheim Partners

Q

You may start to buy back stock at that point if you forgo his bonus. I'm going to leave it at that. And then Larry, I'm glad to see that Bruce is still very busy at work. I was a little bit worried there. Thanks, guys.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

He's always willing to take one for the team, Shar.

Shahriar Pourreza
Analyst, Guggenheim Partners

Q

Bye.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thanks, Shar.

Operator: Thank you. Our next question comes from Durgesh Chopra of Evercore ISI. Please go ahead, Durgesh.

Durgesh Chopra
Analyst, Evercore ISI

Q

Hey, team. Good morning and thanks for taking my questions.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Good morning. How are you?

Durgesh Chopra
Analyst, Evercore ISI

Q

Larry, great. Great. Great and a great update and nice to see Bruce continuing to take one for the team. So, listen, so two questions. First, can you just clarify these Letter of Intents with the two developers? This is going to be new megawatts, right, coming to the market? These aren't existing assets. Just want to be clear there.

Robert J. Gaudette
Executive Vice President & President-NRG Business and Wholesale Operations, NRG Energy, Inc.

A

Yeah. Hey, this is Rob. So the way to think about them is these developers are out securing agreements for two kinds of structures. One is they get a data center, build it on our site, so a new demand and those sites don't have power plants on them. So we're not going to build a plant there. The second piece is the way you alluded, which is they will build a data center, we'll build a power plant to support it. So everything you should think about is additional. Nothing sticky behind existing generation that we currently run for our fleet. Does that answer your question?

Durgesh Chopra
Analyst, Evercore ISI

Q

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It does. Exactly. So these are additional megawatts coming to the market.

Robert J. Gaudette
Executive Vice President & President-NRG Business and Wholesale Operations, NRG Energy, Inc.
A

Correct.

Durgesh Chopra
Analyst, Evercore ISI
Q

Not the existing. Okay. Perfect. And then maybe in that context, can you speak to the legislative session in Texas? We have seen a couple of bills there. We've talked about large loads. How do you see that impacting your discussions and what are your thoughts on what the investors should be focused on there, please?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

Look, we actually think bills like SB 6 are a positive because it provides real clarification in the market. It shines a light on what the actual additional costs are of being a data center person and starting to work towards allocating the costs in the system properly so that people who build data centers pay their fair share and it doesn't fall entirely on retail customers. So this needs to be done without retail rate shock for the consumers of Texas. We obviously are huge proponents of that as the biggest supplier in Texas. And we think this bill will actually provide for a fairer allocation of cost across it. So we think the actions that the legislator are taking are generally quite positive. And we look forward to working with them to try to get a bill that makes sense for the entire system.

Durgesh Chopra
Analyst, Evercore ISI
Q

Perfect. Thank you for that color. Thanks.

Operator: Thank you. Our next question comes from Angie Storozynski of Seaport. Your question, please, Angie.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

Thank you. Lots of details. So, for Rob, first you mentioned long-term revenue rates, $70 to $90 for those new gas plants. Lots of questions there. So how would you structure these contracts? Are these going to be spark spreads-driven contracts when you build? Are we going to be more mimicking the tolling agreements that we saw in California? How do you manage the collaterals and like commodity price volatility over probably like 10- to 20-year contracts for these new gas plants?

Robert J. Gaudette
Executive Vice President & President-NRG Business and Wholesale Operations, NRG Energy, Inc.
A

Sure. So to start with, every structure will be slightly different depending on the customer. Some will want to lock up for 10 years. Some will probably want to lock up, meaning lock their price, but keep the capacity for 20 years and then we reset. But the way to think about it is ultimately if you have a power plant serving one of these loads, your exposure is gas, not power, right? It's a heat rate locked in. So we know what we're doing from the heat rate perspective because we have the facility backing it up. We know what our revenue rates would be and $70 to $90 is just the energy side to be clear. There's other adders that would go on and if you did it somewhere in PJM, it would be plus capacity. But – so that leaves you with gas exposure, which is the ultimate question you're asking.

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And you know this and I'll just say it out loud, we got the biggest gas platform in the country. We've got an incredible team of people who work both physical and financial gas out to term. And so we feel very confident that we'll be able to lock up whatever kinds of exposures that the customer may want to do. And remember, Angie, we do this for large C&I customers already. This is not something new for us.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

So, it's not like every plant will have to come with its own LC? I mean I've heard that that was one of the reasons why we haven't really had a contract for existing gas plants, because there are some credit issues associated, collateral postings on both the power side and gas side given the duration of these contracts. So, again that's something that you can deal with within the current business?

Robert J. Gaudette
Executive Vice President & President-NRG Business and Wholesale Operations, NRG Energy, Inc.
A

That's correct.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

Okay. So – and the other question that I have is so if you take a step back, [ph] besides (00:39:17) there was a noise around what is the total demand growth, it seems like regulated utilities are actually progressing much faster on gas side, newbuild and contracting for data centers than IPPs are. And there is this growing concern that there is red tape surrounding both existing and newbuild assets in competitive power markets. Again, it probably varies by market but how do you see this? I mean are you competing with regulated utilities? And again if these are contract-based power plants, does that matter that you have a higher cost of capital to build these assets?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

Angie, I think, let's start with – and certainly in Texas, that's not the case. We have one regulator. They want data centers in the state. That's why they're working on SB 6, so I don't see us being slow to market. I don't see anything in this update that shows that we're being slow to market. I can't speak to others but these are complex and people are going to wait to do announcements at different times.

Look, regulated people will get a fair share of this business. I mean we'll need data centers everywhere. When they need them in regulated markets, they'll be in regulated markets, and in competitive ones they'll go to competitive people. I don't – I think the regulated versus competitive is a bit of a false divide, though I do think the competitive advantages that we have given our existing commercial businesses, the venture we announced today, the Letters of Intent we have today, it's hard for me to imagine any regulated utility being as fast-to-market as we are. But if they are, that's probably a stock you should be buying.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

Okay. Okay. Now, just the last one on the CDR. So, Rob, you mentioned that in your prepared remarks, I mean you've seen many of these CDRs, so have we. I mean we went through from a 50% surplus for 10 years to a 30% shortage within six months. And I know there are changes in the calculation here. But we haven't really seen much of a reaction in forward power curves. I think we all have a sense of why that is. And so are you seeing some sort of a reaction, for example, from existing large loads, be it in the Permian or anywhere else in ERCOT

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that are looking at these projected supply-demand dynamics and are willing to lock in power at currently observable prices because they do expect a step-change in those forwards?

Robert J. Gaudette
Executive Vice President & President-NRG Business and Wholesale Operations, NRG Energy, Inc.
A

There's a lot there. All right. So let me try to knock it out. The CDR update, so you're right, we've all been through this and we've looked at it multiple times. What happened in the CDR were two big things: One, they adjusted the supply side to a more realistic view, right? So that created a reduction in supply to the grid. And then they threw in a bunch of loads and what's your view on load will determine what you think the value of the CDR is.

You're right. The curves haven't fully reflected whatever the reserve margins look like out in 2027 and 2028. I would tell you they are up a little bit. They're probably mid-50s now around-the-clock, which is considerably better than where they were a month or two months ago. And to your last question and I'm glad you asked it, in the C&I book so with the large loads in every zone in Texas, they are looking to lock up power, right? We have seen a dramatic increase in power customers coming to us who've been sitting on the sidelines for a couple of years, looking to lock up power for terms of five-plus years or out into 2029, 2030. So they see it and they're trying to get ahead of it and we're happy to help them do that.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

Very good. To infinity and beyond. Thank you.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

Thanks, Angie.

Operator: Thank you. Our next question comes from Michael Sullivan of Wolfe Research. Your line is open, Michael.

Michael P. Sullivan
Analyst, Wolfe Research LLC
Q

Hey. Good morning.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

Good morning.

Michael P. Sullivan
Analyst, Wolfe Research LLC
Q

Thanks. Thanks for the update here and definitely can appreciate you want to may be wait on some of the details. But maybe just directionally, can you give us a sense of this GEV agreement, the newbuilds you're going to do there, how the cost compares to the brownfields you're doing in Texas? And then maybe how we can square $70 to $90 PPA with ultimately the return that you're targeting on these investments?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

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Yeah. I mean obviously with the GE-Kiewit partnership, it's obviously going to be more than the brownfields. I mean the brownfields are, because of all the work we did in advance, that's a number that's not achievable. Again, the number -in terms of – that was for the [indiscernible] (00:44:55).

So I think you can look at us within this other transaction to be more at the market, which seems to be in that $1,500 to $2,000 range right now. And I don't expect that – I think we will do better than most as we'll be repeating and replicable with these partners. And we'll have the advantage of this venture, which will help us expedite things, avoid construction delays, learn a heck of a lot. So all of those kind of things will get us at the lower-end of that range. We're hopeful or at least lower than anyone else is going to be able to do them for. So I think that kind of would be the broadest outline that I can give you with respect to those costs.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Okay. And just on the returns you're targeting?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Our hurdle rate hasn't changed, but I actually think that we will exceed our posted hurdle rate significantly. We're not changing our target hurdle rate here today. But I think all of these new – we're doing this with the premium pricing and the transaction and putting in all this time and investment because we think we're going to significantly beat the hurdle rate that we've set forth in the public market.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Okay. That's helpful. And also just tied to that, the 80/20 framework that holds through this whole period, like even beyond 2019 when you're doing [indiscernible] (00:46:25)?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

I think it holds. [indiscernible] (00:46:27). They're not accretive anymore, the buybacks. I mean our stock is still an incredibly attractive option and we'll continue always to look at that but I don't think for the next three years you have to think about that. I'm not going to tell you that our capital allocation policy five years from now will be the same as today. But I don't know what the world will look like. But if you look at when we're going to have to spend the capital to do this, it's not really this year. It's not a ton of it next year. If it ramps, it will be ramping in late 2027, 2028, 2029 and that's perhaps the time for revisiting. But at this time, no change.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Okay. Great. And last one just in Texas. Anything else we should be watching beyond SB 6 in the legislative session as we see it right now?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

No. I think SB 6 is the big one. That's certainly where our eyes are.

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Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Okay. Thanks very much.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thanks.

Operator: Thank you. Our final question comes from David Arcaro of Morgan Stanley. Please go ahead, David.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Thanks. Good morning.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Hi, David.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Let me see. Let's see. I had a question on the high priority and the medium priority sites. Do those have transmission access in place? Can they offer the speed-to-market for large loads or would you still need to deal with grid studies, transmission upgrades, things like that?

Robert J. Gaudette
Executive Vice President & President-NRG Business and Wholesale Operations, NRG Energy, Inc.

A

So, David, every site, regardless of what it is you have to do a filing around transmission sites and interconnect. The speed component and typically and especially in Texas, those interconnects happen a lot faster than the turbine deliveries. So I'm not really worried about that interconnection piece.

The other value of our sites is that some of that equipment is already there. So when you get the study back and it says you need X, Y or Z. X, Y and Z is already on site, so that speeds up the process also. But nobody is going to build anything without having filed with each of the ISOs.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. Great. Yeah. Thanks for that. And then just I had a quick clarifying question on the GE Vernova and Kiewit venture here. That 1.2 gigawatt order or slots for turbine that you've got, do you have a project specifically connected to that? Do you have an offtaker for that initial 1.2 gigawatts?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

When we do, you will be among the first to know. I mean we obviously have pretty good line-of-sight David to where – what we think is happening there. But we still have some – we're still exploring options. There's a lot of people who are interested. We do have the two Letters of Intent and hyperscalers. So we have – obviously if

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we've signed anything like that, we'd have to announce it. I think anyway it would probably be material. So – but we're very confident, as I said before, that we will have PPAs in place prior to making significant commitments on those.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Got it. Makes sense. And then I was just curious broadly there's been some concerns in the market or jitters around data center demand and urgency and the pace given some of the industry updates, DeepSeek, et cetera. But are you detecting any hesitation maybe around the legislative session in Texas or concerns with the supply-demand backdrop? Is the grid getting too tight for data centers to be comfortable in the state? Just any reconsiderations or hesitation among the kind of parties that you're talking to?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

I think we're actually seeing the opposite. We have more people beating down our doors. I mean I think one of the reasons we have this new venture is all of us, we wanted to work together so people wouldn't have – we all wouldn't have to be beating down each other's doors in order to prioritize projects. But we're seeing that and if you look all the hyperscalers are either reaffirming or expanding their capital commitments. So clearly they're going to spend it. They're going to need to build it. And if they build it, they're going to need our power. So we're not seeing that.

Look, I think, David, as you know, there's a lot of new investors in the space now. And every time a rumor comes out positive or negative, they get either super enthusiastic or super depressed. And I think we're all just going to have to live with that for the next year or so, but maybe longer.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Absolutely. No. Understood. Appreciate it. Thanks for the color.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thanks, David.

Operator: Thank you. I would now like to turn the conference back to Larry Coben for closing remarks. Sir?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

I want to thank you all for listening and for your great questions. As you can hear, we are super excited about NRG as a company and where we sit, both in our core businesses and in the supercycle opportunities we discussed. We look forward to sharing more with you in the days ahead.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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