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NRG Energy, Inc. (NRG)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the NRG Energy, Incorporated Fourth Quarter and Full Year 2021 Earnings 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] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Kevin Cole, Head of Investor Relations.

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

Great. Thank you, Amy. Good morning and welcome to NRG Energy's fourth quarter 2021 earnings call. This morning's call is being broadcast live over the phone and via webcast, which can be located in the investor 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 now 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. I'm joined this morning by Alberto Fornaro, Chief Financial Officer. Also on the call and available for questions, we have Elizabeth Killinger, Head of Home Retail, and Chris Moser, Head of Operations.

This is my 25th earnings call as CEO, and I wanted to start with a quick look-back on what we have achieved. Over the past six years, we have transformed our company from a complex industrial story into one that is much simpler and focused on our core strengths. Along the way, we have made significant progress in our strategy to get closer to the customer, optimize our generation portfolio to serve those customers, strengthen the financial health of our company and created significant shareholder value. We now turn to the next phase in our evolution of growing our business and realizing the potential around the customer. I am excited about the future and look forward to sharing our progress with all of you in the months to come.

Moving on to the three key messages of today's presentation on slide 4. Our business delivered results in line with the 2021 guidance, effectively navigating supply chain constraints and volatile market conditions, further validating the strength and durability of our model.

Next, I am pleased to report that we have successfully executed our Winter Storm Uri mitigation plan, and we are increasing 2022 capital available for allocation. Finally, we continue to advance our five-year strategic road map in moving closer to the customer and our commitment to being excellent stewards of shareholder capital.

The 2021 financial and operational results are on slide 5. Beginning with our scorecard. We executed on all our priorities. I want to thank all the employees at NRG for maintaining focus during a challenging year which included a global pandemic, Winter Storm Uri, asset sales and the integration of Direct Energy. Importantly, we were able to operate through these conditions while setting another record for safety. This is the fourth straight year we have set a new company safety record, an incredible accomplishment worthy of recognition.

Direct Energy integration remains ongoing, and we are on track to achieve our run rate synergies. During the year, we outperformed our initial expectations, achieving $175 million versus our original expectation of $135 million. This integration is led by the same team and supported by the same governance as the transformation plan, which gives me the utmost confidence in our ability to reach, if not exceed, our run rate targets.

Following multiple years of rightsizing our business, 2021 marked a significant milestone in capitalizing our best-in-class consumer services platform. We added roughly 3 million customers to our portfolio and expanded the scale and scope of home, power and natural gas services. Also, during the year, we monetized 4.8 gigawatts of noncore fossil assets in our East and West regions, announced the retirement of 1.6 gigawatts of coal assets in the East and signed an additional 800 megawatts of renewables PPAs.

Next, we continue to adhere to our disciplined capital allocation principles. In late 2021, we announced a $1 billion share repurchase program to be completed throughout 2022. We also increased our dividend per share, 8%, in line with our stated dividend growth rate of 7% to 9%. In June, we held our Investor Day where we revealed our five-year strategic road map to create significant stakeholder value by moving closer to the customer while also returning significant capital to our shareholders.

Moving to the right-hand side of the slide for the financial results. We delivered $433 million of adjusted EBITDA for the fourth quarter, 31% higher than the prior year. This brings our full year results to $2.42 billion of adjusted

EBITDA, 21% higher than the prior year, primarily driven by the acquisition of Direct Energy and excluding the impact from Winter Storm Uri.

Finally, we are maintaining our 2022 adjusted EBITDA and free cash flow before growth guidance ranges. We are seeing promising results in mitigating winter supply chain constraints. And I look forward to updating you next quarter. As a result of our Winter Storm Uri mitigation plan, we are increasing our 2022 capital available for allocation by $212 million, which Alberto will discuss in more detail.

Now turning to slide 6 for a brief update on the ERCOT market. Following Winter Storm Uri, it was clear that market reforms from well-head to light bulb were necessary to improve grid resilience. In the months following the events, we actively engaged in discussions with legislators, regulators and other market participants to introduce comprehensive and competitive solutions across the entire system to address areas that failed. In 2021, Texas made significant progress in hardening the electric grid through power plant and transmission weatherization standards, improved market design with changes in scarcity pricing, ancillary reforms and consumer protection improvements. In 2022, we expect Texas to expand its focus on hardening the natural gas infrastructure and implementation of Phase 2 of power reforms, which includes resource adequacy by establishing a load-side reserve requirement and on-site fuel security.

I want to commend the Texas Governor's Office, Legislature, PUCT and ERCOT for taking swift action and accelerating effective reforms that would normally take years and addressing them within months. While our work is not done yet, we believe Texas performance through a tough winter is a strong reflection of effective actions and policies.

Moving to the right hand side of the slide for an update on the financial impact from Winter Storm Uri. I am pleased to announce that we have successfully executed our mitigation strategy. Today, we're updating the net financial impact from the storm to $380 million from our prior expected range of $500 million to $700 million.

Now turning to slide 7, it is important that we recognize our ESG principles and highlight a few of our 2021 accomplishments. We created a sustainable framework with a strong foundation based on our corporate values and our sustainability program that brings all stakeholders working together with a common purpose. From our customers to our employees to our operations, our sustainability program consistently upholds a high standard of accountability and transparency across the key pillars of environmental leadership, social focus and strong governance. I want to start with an update on our environmental leadership. As you know, we committed to a stringent decarbonization path in line with the 1.5 degrees Celsius scenario which has been certified by the Science Based Targets initiative.

That means reducing our carbon emissions 50% by 2025 and net zero by 2050.

As you can see on the right hand side of the slide, since 2014, we have reduced our carbon emissions by 44% and we have a clear line of sight to our 2025 goal. So just to put this in perspective. This is equivalent to taking 5.8 million passenger vehicles off the road for a year. In addition, as advocates for the electrification of transportation, in 2021, we set a goal to electrify a 100% of our light-duty vehicle fleet by 2030, further demonstrating our commitment to progress. All these efforts have resulted in the diversification of our revenue streams to cleaner solutions.

Since 2014, coal generation as a percentage of revenues has decreased by 80% and now represents less than 5% of our total revenues. If you recall, not long ago, coal made up almost one-third of our revenues. We still have much work to do, but I am confident we are on the right track and have the right team to succeed on our goals.

On the social front, our engagement with our employees, communities and customers continues to advance. As I mentioned in my opening remarks, in 2021 we once again achieved top decile employee safety performance. We also implemented employee programs to support financial, physical and mental wellbeing. Our diversity, equity and inclusion value continues to shape our culture and inform our decision making as we strive to unlock the power of DEI as a way to better understand our customers and the communities we serve while also making our team stronger.

In our communities, we supported more than 750 nonprofit organizations through our philanthropic arm, positive NRG. We also focused our volunteer efforts on food security through virtual and in-person food donations and packaging meals for those in need. And for our customers, we are always innovating. We have been a leader in facilitating renewable energy for our residential customers, as well as providing a path for small and medium sized businesses to participate in the sustainable energy transition. And as we all know, more than ever, the home is the center of our lives. So we continue to advocate for individual customer's choice in the products and services that best suit their values and lifestyle delivered with reliability and affordability.

Finally, regarding our strong governance, I am particularly proud of our transparency in reporting and accountability on our goals. In just this last year, we released our 11th annual sustainability report, our fifth reporting compliance with SASB standards and 12th CDP or Climate Disclosure Project questionnaire. We also formally issued our first TCFD or Task Force on Climate-Related Financial Disclosures as a way to improve and ensure our stakeholders have the right tools to make informed decisions and track our progress.

In 2021, we issued our second sustainability linked bond. If you recall, we were the first company in North America to do it back in 2020. These bonds tie our financing cost to achieving our carbon reduction goals. As you can see, our culture of sustainability is ingrained in every part of our organization, and we continue to play an integral part in our transition to a consumer services company. I am looking forward to sharing more details of our ESG journey with you later this spring in our 2021 sustainability report.

Now, I want to provide you an update on our growth program. As I shared with you during Investor Day, our focus over 2021 and 2022 is twofold, optimizing the core and setting the stage for growing the core. In terms of optimizing the core, we continue to remain on track to integrate Direct Energy into our business and have been successful in optimizing our generation portfolio to support our customer facing business. We are also making solid progress on our efforts around growing the natural gas and dual fuel customer portfolio.

Let me give you a couple of specific examples for both. One, we are seeing early success in achieving our customer count by leveraging our existing and longstanding partnerships with big-box retailers to sell natural gas and expand our geographic footprint. Second, we are advancing our digital experience, so customers can easily enroll in both electricity and natural gas plans. These efforts are relatively new, and I will share more details as we make progress later in the year.

Now moving on to growing the core, you will remember that our plan is focused in two areas, energy services and home services. The house depiction on the left really gives you a sense of the various customer solutions that are on our growth road map. Some of these solutions are already operational, such as power, natural gas and storage. But others such as solar and EV are in the pilot or development phase. The table on the right slide (sic) [side] provides the status on each of these targeted customer solutions. The important key takeaway is that we are not starting our growth program from zero.

We have meaningful existing capabilities to deliver many of our targeted customer solutions, and we are leveraging those capabilities as we speak. For those customer solutions that are not currently operational, we will use 2022 as a staging period for us to prudently test and learn, optimize our participation model and refine the go-to-market approach such that when we get to 2023, we will have confidence in deploying capital against that growth.

Moving to slide 9. As you can see, our capital allocation track record is cycle appropriate and directly in line with our road map to stabilize, rightsize, redefine and now enhance our company. During 2016 and 2017, our primary focus was simplifying and strengthening the balance sheet. In 2018 and 2019, with the balance sheet significantly improved, we were able to shift to returning capital, to shareholders and growth. In 2020 and 2021, the Direct acquisition meant more of our capital shifted towards growth and debt reduction.

Now, moving to 2022, we turn our focus towards achieving our per share growth objectives and growing into our investment grade credit metrics through the full realization of Direct Energy run rate earnings and our growth program. And like I said earlier, 2022 remains a staging year for growth, which provides significant excess cash to be returned through dividends and share repurchases. I will provide you an update on the remaining unallocated cash throughout the year.

So with that, I will pass it over to Alberto for the financial review.

Alberto Fornaro

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

Thank you, Mauricio. I will now turn to slide 11 for a review of the full year results. We finished the year achieving our 2021 adjusted EBITDA and free cash flow before growth target in line with guidance, realizing more than $2.4 billion in adjusted EBITDA and $1.5 billion in free cash flow before growth.

Adjusted EBITDA reflects a $419 million increase compared to 2020, primarily due to the acquisition of Direct Energy in January of 2021. This is despite several unexpected headwinds, including the extended forced outage of Limestone Unit 1 power plant, additional planned and unplanned outages in Texas and increased ancillary charges. The results includes the achievement of $175 million of Direct Energy synergies in line with the most recent expectations and in excess of the initial 2021 target set at $135 million. Free cash flow before growth was $1,512 million for – $22 million ahead of the midpoint of 2021 guidance, primarily to due lower capital expenditure.

Moving to the highlights, 2021 was a productive year in moving closer to the customer. We closed on the Direct Energy acquisition and successfully started the integration process. Next in December, we closed the sale of 4.8 gigawatt of noncore East and West fossil generation. We also reduced our debt by $755 million and further linked our financial performance to our climate goals while reducing our interest expenses through refinancing, callable debt through $1.1 billion sustainability linked bond.

Moving to the update on Winter Storm Uri impact. We have significantly improved the net impact from the storm. You may recall that at the end of Q3, our expectation for the mitigants was the range of $370 million to $570 million, with the net impact of approximately $500 million to $700 million. Today, we are reducing this net impact to $380 million as a result of increased mitigation of $708 million as a result of the securitization, as well as effective management of customer bad debt and counterparty exposure. From a GAAP income statement perspective, we fully recognize these mitigants in 2021 through a reduction in cost of goods sold. The cash impact, however, was different, and it is highlighted on the bottom left on slide 11.

First, you may recall that the mitigated loss includes bill credit to C&I customers and other items which are going to materialize as a cash flow in 2022. At the end of December, the total amount was equal to $97 million. Second, the – $696 million of proceeds from the securitization, while fully accrued in 2021, will be received in Q2 2022. Overall, the cash impact of Uri in 2021 was, therefore, equal to a net outflow of $979 million, offset by a cash inflow in 2022 of $599 million.

Moving to the right-hand side of the slide, we are maintaining our 2022 adjusted EBITDA of $1.95 billion to $2.25 billion and free cash flow before growth of $1.14 billion to $1.44 billion guidance ranges. As Mauricio said in his scripted remarks, we are seeing promising results in mitigating our previously discussed winter supply chain constraints, and we look forward to updating you next quarter following the winter season. Since the last earning call in December, we announced and immediately began executing our $1 billion share repurchase program. We executed $120 million in repurchases to-date with the $39 million in December and $81 million year-to-date. The remaining program will be completed through 2022. Finally, our Direct Energy integration and synergy plan remains squarely on track.

I will turn now to slide 12 for a brief update on our 2021 capital allocation. Moving left to right, our realized free cash flow before growth in 2021 is $22 million above the midpoint of the guidance. Next, we are showing our actual increase in cash of $41 million instead of the $150 million previously planned. Next, during the four quarter, we finalized the purchase price adjustment with Centrica for the Direct Energy acquisition, resulting in a $25 million increase for the prior earning call.

Next, for Winter Storm Uri, as mentioned before, the 2021 cash outflow was $979 million, while we expect to receive a net amount of $599 million in 2022 as shown in the next slide. Next, we completed another $500 million of debt reduction during the quarter, bringing the full year total to $755 million using a portion of the $623 million of net proceeds received from the sale of the 4.8 gigawatt of generation assets. As mentioned before, $48 million were utilized for share repurchases, including $39 million towards the $1 billion share repurchase program. The capital available for allocation at the end of 2021 has been, therefore, fully allocated.

Turning to slide 13 and again, working left to the right, the combination of the midpoint of our 2022 free cash flow guidance with the net cash expected from the proceeds of the securitization will provide us almost $1.9 billion of cash to be deployed in 2022. Moving to the right, we expect to increase the minimum cash to $650 million, pay approximately $339 million in dividends, and complete the remaining $961 million of the share repurchases. Please note that the dividend amount is based on current share outstanding, and we will provide updates on future earning call as we progress throughout the execution of the share repurchase program.

Next, in other investments column, we have committed $170 million at this point, which includes $70 million for the integration of Direct Energy business, $50 million for small books acquisitions, $25 million to prepare the land at Encina for an eventual sale and $25 million in other smaller projects. Lastly, we expect to have $310 million of remaining capital available for allocation, still to be allocated in 2022.

Now, turn to slide 14. We finished 2021 with net debt-to-EBITDA of approximately 3.2 times after adjusting for noncash items and removing the EBITDA from the recent asset sales. Our long-term financial strategy remains unchanged and we are committed to a strong balance sheet by continuing to target investment grade credit metrics of 2.5 to 2.75 times, primarily through full realization of the Direct Energy run-rate synergies and growth initiatives. We will continue to provide updates on our path to investment grade metrics as we execute these initiatives.

Back to you, Mauricio.

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

Thank you, Alberto. Moving to our 2022 priorities and expectations on slide 16. First, we will always be focused on the blocking and tackling of delivering on our financial, operational and ESG commitments while adhering to our capital allocation principles. Beyond this, we're focusing our efforts in two key areas: provide additional disclosure to help better model our business and provide greater detail around our growth strategy.

First on our disclosures. Following the Direct Energy acquisition and our move towards consumers, we're working on a comprehensive rework that will enhance your ability to model the value of the customer. In the meantime, I want to start with a new hedging methodology slide in the appendix of today's presentation, which should help shed light on our rigorous risk management and supply optimization program that helps stabilize our business. On growth, as I discussed earlier, we will be transparent in the process, and I look forward to updating you on this throughout the year.

Finally, while 2021 was a challenging year, today, our company is stronger and more promising than ever before. I am very excited about 2022 and the significant opportunities we have to create shareholder value. So with that, I want to thank you for your time and interest in NRG.

Amy, we're now ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question is from Jonathan Arnold of Vertical Research.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC
Q

Oh. Hi. Good morning, guys.

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

Hey, Jonathan. Good morning.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC
Q

Mauricio, thank you for the mention on the new disclosures that you just made. I was curious if you can give us some sort of gauge of when we might expect to see those. Is that kind of mid-year, next quarter, later in the year? Just some framework there.

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

Yeah. No, Jonathan, so, I hope that you find useful the new hedging disclosures. And obviously, Kevin will be available if you have any questions as this is a new information. With respect to the disclosures to help better model the value of the customer, my expectation is that it will be done sometime later in the year or beginning of next year. We are working hard to ensure that our key performance indicators are in line with our financial disclosures. And we want to make sure that they are useful as opposed to rushing and giving you something mid-year that you have to reconcile before and after. So, these type of changes, I appreciate they're always better at the end of the year, so you start with a fresh slate. So I would think that it would be – we're going to try to time it, when we are ready, when we believe these are going to be very useful and when we don't make you do a lot of work in reconciling, the before and after.

So, I hope that this provides you some idea when we're planning to do this.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Yeah. No, very helpful. Thank you, Mauricio. And then on the – one thing I noticed was that you're now talking about growing into the credit metrics. I think before you said you anticipated being there by the end of 2023. So, is that a change or just me overreading the slide?

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

A

Yeah. So I mean our commitment continues to be 2.5 to 2.75 times. Obviously, we need to stay flexible. As you can appreciate, there is a lot of things moving around this year. I mean it's a – it continues to be a transition year because of the growth program that we have, the optimization that we have. So our goal is to grow into the metrics. But obviously, we will – we have to remain flexible in this environment. And just, Jonathan, before I forget, I wanted to make sure, the additional hedging disclosures are available now and they're in the appendix of the presentation, okay, just to make sure that's crystal clear.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

I'd say I had seen those and I was – maybe I'll just ask a quick one on those while I have you. You're obviously giving a look that shows that you're, I guess, 15% over-hedged effectively or covered. I know how you'd best describe it in ERCOT. Can you give us a little bit of an insight into how does that look by season, is that sort of skewed winter versus summer? Just anything beyond just that kind of annual look.

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

A

Yeah, Jonathan. So obviously, we feel comfortable providing the yearly disclosures. Once you start getting into the seasons, it is competitive, sensitive, and in conversations with our commercial team, we wanted to make sure that we just provided this level of granularity to make sure that we don't compromise our commercial activities. So, I think the two big takeaways from my perspective on the hedging slides is, number one, we're pretty well hedged against our expected load, and then number two, it is a combination of electricity that we generate plus market purchases, and our commercial team is responsible for optimizing between the two. So, that to me is the big takeaway on that slide and we wanted to just show how much our market purchase is versus electric generation. One thing to note is this is just the economic generation, and the – in the money hedges. So, you should assume also that we have some flex capacity that is out of the money, both on the generation that we own and some of the tolls and options that we buy from the market. So, just keep that in mind.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Great. Thank you very much for all the time guys.

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

A

Thank you, John.

Operator: Your next question is from Michael Lapides of Goldman Sachs.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thank you for taking my question. If I look at, Mauricio, over the years when you've done M&A, often we get a year removed from the M&A, sometimes a little more, sometimes a little less. And you guys start talking about outside the synergy savings. How do you think now that we're a little more than a year removed from the Direct Energy acquisition. I know it's been a crazy year with Uri and everything else. How do you assess whether there's potential upside either on broader cost management or cost management and synergy savings related to Direct?

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

A

Yes, Michael. Good morning. No – so, obviously, the integration of Direct Energy was a three-year integration if you remember, Michael. And I'm just very pleased with the performance of the team and – achieving the synergies. We actually increased the synergies that we achieve in our first year. As we enter into the second year, I will tell you this, I am incredibly comfortable that we're going to achieve them, and – but being mindful that this was a three-year program and we're literally just entering the second year. I will assess the potential of additional synergies. And I think what you should expect is throughout the year, we will give you an update on our performance there. But I feel I remain very confident that we're going to achieve our numbers and we'll give you an update throughout the year if we decide to – basically to up the ante on that.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then one quick follow-up. If I just look at the balance sheet and this is going to get a little wonky, but like current assets is significantly higher than – meaning, if I look at things like accounts receivable and accounts payable, the spread between accounts receivable and accounts payable is about $1 billion, a positive meaning where AR is greater than AP. And the current asset for derivatives is significantly greater than the current liability. Those would imply that there's significant working capital cash inflows coming. But when I look at your free cash flow guidance, I don't think that's embedded. Am I just misreading that or are there other off – things that significantly offset those items?

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

A

Okay. Michael, I will turn that over to Alberto. And obviously, as you said, I mean I think this was a little technical and we can always follow up with you. But I mean, Alberto, is there something that you want to add here?

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

A

I just want to point to a couple of things, Michael. First of all, the derivative is obviously a – the derivative value is a combination of the addition of the gas business and increase in the gas price. So that has in this case, particularly on the asset side, increased the value of that.

Regarding the comment on current assets, please consider that we have also included in the current asset that is the proceeds from the securitization and so on. But say – having said that, obviously, we have acquired another business and it has an increase – has increased our needs in terms of working capital, we have put that under focus and rest assured that there are initiatives to keep that under control that will be taken. So overall, we are very confident about the projection that we have for it.

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

A

And Michael, just to remind you, working capital was an area of focus during the transformation, and we were very successful on that. We kind of have the road map on how to optimize our working capital and we're going to – we are applying all of those lessons learned to the integration of Direct Energy.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you, guys. Much appreciated. I'll follow up...

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

A

Thank you, Michael.

Operator: Your next question is from Paul Zimbardo, Bank of America.

Paul Zimbardo
Analyst, BofA Securities, Inc.

Q

Hi. Good morning.

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

A

Hey. Good morning, Paul.

Paul Zimbardo
Analyst, BofA Securities, Inc.

Q

I wanted to check in on kind of your achievement on the customer growth strategy and just any insights you can share on customer counts given some of the commodity volatility and if you're seeing any change in attrition recently.

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

A

I mean, I'll pass it over to Elizabeth for the attrition, but I would say it's remained pretty constant and I think that's what we experienced during the last year. Our retention numbers were really good. So Elizabeth, you want to provide a little color here?

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

A

Yeah, thanks for the question. We definitely achieved our customer count commitments for the year that what we had planned to achieve, we actually beat it by a bit. But as Mauricio mentioned, retention was extremely strong, really one of our best years ever. And that is a product of some of the efforts over the last kind of five years of increasing the tools and techniques we used, leveraging the data that we have to make sure we're putting the right renewal offers in front of customers that will entice them to stay with us.

We did have some opportunity to recover in our sales channels as well. With COVID, our face to face channels were set back quite a bit. And so we saw some improvements there. And then finally, on the DE integration front, we met or beat our expectations for retaining those customers. As you all know and have seen from us over the years, as we acquire customers, whether it's through M&A or small book, you do see some attrition in the year or two following that. And as long as we keep meeting or beating what we expect from that, we're going to be really pleased. But I'm super proud of the work the team has done from the frontline folks either face to face or in our call centers and the digital teams for all that they've done, and I'm excited about the potential for 2022 and beyond.

Paul Zimbardo
Analyst, BofA Securities, Inc.

Q

Okay. That's great to hear. And then a separate unrelated question. I know you all have been very proactive with some of the strategic asset sales as you've repositioned the business. Do you see more opportunities to continue that trend and become more capital light than particularly in our Texas on that theme?

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

A

Yes, I mean, as you know, we completed a pretty large divestiture in 2021, and the optimization of the portfolio is – it's a focus of ours. As you remember on the Investor Day presentation, I said that in the – growing the core is one of our key strategic priorities, that's going to continue. The north star of that is we're going to have assets that better help us serve our customers. So whatever those are, they are core, and if they're not core, they're not core and we're going to look to optimize.

Now, with respect to Texas, obviously, we have our capital-light renewable PPA strategy that has been very successful, close to 2.6 gigawatts. And we're going to continue to focus on that. We're constantly in the market. We're running RFPs basically on a continuous basis. We're going to be very selective on that. And it already has yielded tremendous value for us. And that's going to continue to be a focus. Now, as Texas is changing some of the market design changes to incentivize dispatchable generation, we are definitely looking into that. We have lots of sites that we can evaluate opportunities. And as we have done in the East, I mean we're going to do it in Texas. If we find the right partner, we're going to do it, but we're going to do it in a way that is a good use of our capital. And so I expect that to continue. I know the teams are completely focused in evaluating additional opportunities that we have to bring additional supply to serve our customers.

Paul Zimbardo
Analyst, BofA Securities, Inc.

Q

Great. Thank you very much.

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

A

Great. Thank you, Paul.

Operator: Our final question comes from Angie Storozynski of Seaport Global.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

Thank you. So given what's happening in Europe and your disclosures on gas hedges, is it fair to say that even though there's this wide expansion of the positive gas basis in New England, that should not have any negative impact on your gas retail margins in 2022?

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

That's correct, Angie. So – that's correct, Angie. And just to perhaps put a little finer point on our natural gas business, you need to think about it as a logistics business. Okay? We serve – first of all, we don't take any commodity price risk like NYMEX Henry Hub. Most of the risk that we have, it's around basis, and then within basis, as we're serving customers, we have access to a tremendous network of logistics, pipeline capacity, LDC relationships. So that network allows us to manage and optimize our basis risk. So, based on the disclosures that we provided, we feel very comfortable. Obviously, there's always risk to be managed, but I feel very comfortable where I sit today on that. Chris Moser, I don't know if there's anything that you want to add?

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

No, I think you hit the high points. Thanks, Mauricio.

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

Great.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

And then secondly, I know you're going to be providing an update on your guidance I think on the first quarter call, but just looking at the drivers that you showed us on the fourth quarter call, I mean it seems like any issues with coal and trona supplies have sort of subsided. Then power prices in Texas this winter have been really weak, so the outage at your coal plant shouldn't be very painful from an EBITDA perspective. I'm kind of struggling to see what are the offsets to those mitigating factors to the negatives that you showed us on the year-over-year change between 2021 and 2022 EBITDA?

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

Yes, Angie. So as you remember, we provided you, I think we call it transitory items and on all three, I think they're very constructive and positive signs that we're going to mitigate them. Obviously, we're just in February, so I want to wait for the first quarter call. But Alberto, can you just provide a little bit more specificity on where we are on all these three – the three items that we highlighted on the last earnings?

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

Absolutely. First of all, we can confirm that with regards to Limestone, we still expect that Unit 1 will be back running in mid-April and the amount of the impact that we have quantified in $50 million during our third quarter call is basically confirmed. Let me just also remind you that we have not included in 2022 any reimbursement from insurance coming both for property damages and business interruption, first of all, because it is difficult to quantify and normally it's a long process to get that, but second, because we expect it to happen in 2023. We are working on it, but again, as I said, it's a long process.

Second, regarding the coal supply chain, we quantified it in $100 million, of which $60 million in Texas and $40 million in the East as Mauricio had said, so far, we have been able to make some progress against the flat [indiscernible] (00:47:09). We confirm at this moment the same number and we will update you in Q3.

And regarding the Texas ancillary services, which was an impact of $70 million, we confirm the numbers and the action that we have taken, which is basically we've passed through the increases in price with the exception – to all the customers, with the exception where we have the fixed rate contract and these will naturally happen when these contracts will be renewed.

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

Right. And just to, I guess, put a little finer point, on the ancillary services, as the customers that are re-opening contracts, we'll be able to pass through these ancillary services. I think of it as change in law, if you remember Angie. So I think there is an opportunity to – for those customers that we couldn't pass it through, we will in the reopening. And then I am just incredibly pleased with the commercial team and how they've been managing the supply chain constraints around coal. We're still in the middle of the winter, but so far they've done a fantastic job. And we will have an opportunity to provide you additional visibility and quantify that in the next earnings call.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

Good, thank you.

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

Great. Thank you, Angie.

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

So with that, I want to thank you all for your interest and look forward to updating you on our exciting growth plan and other priorities throughout the year. Thank you and stay safe.

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