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Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NRG Energy Second Quarter 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Mr. Kevin Cole, Head of Investor Relations. Mr. Cole, you may begin.

Kevin L. Cole
Senior Vice President-Investor Relations

Great. Thank you. Good morning and welcome to NRG Energy's second quarter 2016 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 and Webcasts.

As of this earnings call, any statements made on this call that may pertain to NRG Yield will be provided from NRG's perspective. Please note that today's discussion may contain forward-looking statements which are based on assumptions that we believe to be reasonable as of this date.

Actual results may differ materially. We urge everybody to review the Safe Harbor in today's presentation, as well as risk factors in our SEC filings. We undertake no obligation to update these statements as a result of future events, except as required by law.

In addition, we 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 this presentation.

Now, with that, I'll now turn the call over to Mauricio Gutierrez, NRG's President and Chief Executive Officer.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

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

Today, we're reporting second quarter adjusted EBITDA of $779 million, a 14% increase when compared to the same period last year, thanks to a solid performance from the Generation business and a record second quarter result for Retail, which continues to benefit from lower wholesale prices, a proven ability to attract and retain customers, and outstanding execution. These are excellent results particularly in light of the low commodity prices that we continue to experience in our core markets. And it once again validates our integrated model and diversified approach to competitive power markets.

Given the back-to-back strong quarterly results and the hedge position we have in place for the remainder of the year, we're not only reaffirming guidance, but we're tracking towards the upper end of our range.

Traditionally, this quarter is a quiet one, our shorter season, since demand for electricity and respective wholesale prices are the lowest for the year, but for us, it was rather busy. In addition to ensuring our fleet was ready for summer operations, we made significant progress in executing on our debt management plan. We have retired $337 million of corporate level debt year-to-date, reduced our 2018 to 2020 maturity debt obligation by $5.8 billion, and bought back $345 million of our convertible preferred stock.

Kirk will go into more detail in a few slides, but I want to take a moment to recognize him and the entire finance and legal organizations for superb execution and timing. The progress made today is an important step to ensure that our leverage ratios remain on target through varying commodity cycles.

In delivering on our commitment to enhance capital flexibility, we have entered into an agreement with NRG Yield to drop down our 51% interest in CVSR with $180 million in total cash consideration, including financing proceeds and an EBIT to EBITDA multiple of over 14 times. This transaction reinforces the value of our partnership, allowing us to replenish capital efficiently while further expanding yields portfolio and [indiscernible] (04:04), which benefits our nearly 50% economic interest on them.

Proceeds from this transaction will be allocated towards deleveraging, specifically to supplement the reserves set aside for our 2018 bonds, expanding our total deleveraging target from $1.3 billion to $1.5 billion.

This quarter, we also finalized the sale of Rockford and the Aurora plants for $425 million, bringing total cash consideration from asset sales to $563 million, which surpasses our initial target of $500 million. We have remained relentless in our pursuit of streamlining the organization and finding additional cost savings.

We are on track to achieve our fornrg cost reduction target of $400 million through 2017 and to reduce our CapEx program by $650 million for 2017. This CapEx reduction follows the successful completion of fuel conversions at

New Castle and Joliet and environmental upgrades at Avon Lake, with all three plants back on line and better positioned to take advantage of opportunities in their respective markets.

Now turning to slide 4. I want to highlight the strong performance of our integrated platform during the second quarter. Safety is always top of mind. And while we remain a top quartile performer year-to-date, we can do and have done better. We are focused on and committed to improving our safety record for the balance of the year.

The mild weather continued from the winter months into the start of the summer with temperatures that were milder than last year. Needless to say, this kept commodity prices through the end of June lower than last year. But once again, our business delivered results that were even stronger than last year. You have heard me say this before, but this is exactly what differentiates NRG from other IPPs. We have an integrated platform that can provide stability and deliver strong results even during periods of low prices while maintaining significant upside. And we continue to demonstrate this quarter after quarter.

Our Generation business performed well, with improvements in reliability, availability and operating cost while realizing higher capacity revenues. We successfully completed multiple CapEx projects, bringing several units back on line for the summer.

In fact, during the first month of operations, our fuel conversions benefited from low gas prices in PJM and are performing even better than expected. Our fleet was also well-positioned to maximize value in the recent 19/20 PJM capacity auction.

Results were disappointing, given the reduction in loads and increase in newbuilds, except in ComEd where prices remain strong benefiting our Midwest Gen portfolio. Overall, we cleared about 80% of all our megawatts in PJM for total revenues of over $0.5 billion.

While these market conditions were not ideal for the generation of business, the low wholesale prices benefited our complimentary Retail business. Beyond favorable supply cost this quarter, our Retail business continued its push for cost efficiencies, customer retention and product expansion.

This is a business that continues a trajectory of growth and has proven to be very stable. I want to commend Elizabeth and the Retail team for their achievement this quarter and for continued success in growing this business.

But while the Retail business on our pivot towards becoming a capacity player, an important part of the story, the NRG value proposition is even more robust than that.

Turning to slide 5. I want to put some of the recent market trends in context of NRG's multiple leverage for value creation as I outlined on our last call. The first lever is our stable but growing base of price of the most predictable parts of our portfolio. Retail, which continues to demonstrate the stability of its earnings, capacity revenues that provides visibility multiple years into the future, and contracted assets through NRG Yield. This first lever has proven solid over time, and there is good reason to believe that our base will only grow and strengthen given current market trends.

We are encouraged by the support for constructive capacity markets and strict performance standards but we're even more encouraged by the increasing need for contracted renewable and quick-start gas plants that are required to meet higher renewable portfolio standards, and the sustainability targets of corporations across the country. We are ready to capitalize on this market opportunity, which is even further enhanced by our partnership with NRG Yield.

Now, turning to the other two levers of our value proposition. Our leverage to natural gas and power. Both less predictable, but with significant upside potential given where we are in the commodity cycle. Let's start with our leverage to natural gas. We have deliberately maintained fuel diversity in our portfolio, and can therefore benefit from the price differential between coal and uranium to natural gas. Our long gas position is about 3.3 bcf a day.

I am encouraged by the price, supply, and demand outlook. We have seen a significant increase in spot prices from the recent lows; production has been stagnant, reflecting an unsustainable low-price environment, and demand is picking up, particularly in the power sector. If the price of gas moves by $0.50, NRG would realize almost $0.5 billion in additional gross margin, 2/3 of which is realized at the NRG level, and with minimal impact on our Retail business since most of our fixed-price obligations are short-term and hedged.

The last lever is our exposure to power prices for heat rates. Our upside is also significant as we have the largest and most diverse fleet in the country, with close to 43 gigawatts of merchant generation. While we're seeing the market tightening due to unit retirements, the outlook for power is more neutral, given the increased uncertainty from environmental regulations, and the recent actions to subsidize on economic generation by certain states. We will continue to work with our generators, regulators, and stakeholders to protect the integrity of competitive markets.

As you can see, the outlook for the business overall is positive, and no other company offers investors a play in the industry in the same way that our business does. We're not one-dimensional when it comes to creating value, and we're able to handle downturns better than others. We do not bet on a single fuel or on a single technology. We have embraced vertical integration and diversification as a way to navigate through a sea of uncertainty in our industry. I have no doubt our business is best positioned for both nearer- and longer-term success in the industry.

I want to take a few minutes to share some thoughts on two of our key markets, ERCOT and PJM. Let's first start with ERCOT on slide 6. We're seeing signs of market recovery as dark spreads have increased over 100% from their lows even outpacing the rebound in spark spreads by a healthy margin. As an owner of an environmentally controlled coal unit in the region, we certainly welcome this move. So far, this summer has been characterized by consistently warm weather, of higher than normal wind production in July, and a healthy grid have resulted in little to no scarcity pricing.

While the forward markets have improved, we have been disappointed that the PUCT have not taken swifter action to correct the demand curve to provide better market signals. That said, we do expect positive revisions to the ORDC later this year to better reflect scarcity conditions in prices.

Finally, there is still an overhang of uncertainty from several environmental regulations in Texas most notably, regional haze. This could delay the decision to retire uneconomic and uncontrolled assets for some time, but ultimately, the investment to comply will prove difficult for these type of units under current market conditions. We remain confident that our large environmentally-controlled and favorably-located assets are well-positioned to meet compliance thresholds with modest capital investments.

PJM is somewhat a different story moving from a market with high energy and capacity prices that incentivizes new generation to one with energy margins under pressure. The massive turnover from coal and oil to natural gas is starting to impact spark spreads as more efficient combined cycles are coming online. In looking at both energy and capacity prices for the 2019-2020 period, we're now below the cost of new entry for a new CCGT. [audio gap] (13:40-13:52)

We expect the next auction for 2020 to 2021 to be more constructive as we believe a move into 100% capacity performance requirement, a potential slowdown in newbuilds, and a more moderate load revision will support higher capacity prices. We are encouraged by the constructive nature of the capacity market and its efforts to better reward unit reliability.

Our investments are consistent with these market dynamics, and rest assured that we will continue to oppose the use of state-based contracts and subsidies that undermines well-functioning competitive markets.

During my first call as CEO back in February, I committed to simplifying our business. This meant not just simplifying how we communicate our value proposition to the market, but also the internal structure and interworking of the organization. In that spirit, it's not lost on me that we need to extend the simplification to our capital structure. So addressing GenOn has been one of my priorities for 2016.

On slide 7, I wanted to shed some light on the situation as it currently stands. The GenOn portfolio has allowed us to fill a gap we had in PJM, a strategic market as we were building a diverse portfolio across all major competitive markets. This position was later complemented with the acquisition of an additional 4,000 megawatts from Edison Mission.

Over the last few years, we have taken steps to capitalize on evolving market trends, particularly around changes in the capacity market. However, deteriorating market fundamentals are adversely impacting the GenOn portfolio. Abundant shale gas, more stringent environmental regulations, and an influx of new efficient gas plants which are causing significant pressure on energy and capacity prices in the region. This low commodity cycle is impacting the financial scale of the GenOn entity, as you can see in upper left-hand table.

Currently, the leverage ratio for the consolidated GenOn entity is 7.7 times. This level of debt relative to EBITDA is successive, particularly as NRG seeks to maintain a long-term corporate level leverage ratio target of 4.25.

GenOn has taken several important steps to address the challenges it faces. First, it has appointed two independent directors to the GenOn board. It is a key step in ensuring that the interest of all stakeholders in GenOn are considered.

Second, it has retained restructuring advisors to help navigate the process efficiently and judiciously. Third, it has opportunistically solved several non-core assets over the past several quarters who helped provide additional financial flexibility within the general complex.

I know that many of you have a lot of questions on GenOn, but I am sure you can appreciate this is a sensitive process, and as GenOn is engaged in ongoing conversations with its stakeholders, we are unable to elaborate on the specifics at this time. I expect to provide more information as this process moves forward.

What I can leave with you today is the reminder that as this process progresses and options are evaluated, there are three key principles that we will adhere to: simplifying the organization; maximizing value; and from NRG's perspective, maintaining the strength of the NRG balance sheet and credit metrics.

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

Kirkland B. Andrews

Chief Financial Officer & Executive Vice President

Thank you, Mauricio. Turning to the financial summary on slide 9, NRG delivered $779 million in adjusted EBITDA in the second quarter, driven by a strong performance by our Retail mass business, achieving a record EBITDA of $213 million.

For the second quarter, Generation and Renewables combined for $326 million in adjusted EBITDA, while NRG Yield contributed $240 million. For the first half of the year, NRG generated almost $1.6 billion in adjusted EBITDA, and $220 million of free cash flow before growth.

Based on both performance year-to-date and our updated outlook for the balance of the year, which has us tracking to the upper end of our EBITDA range, we are reaffirming our 2016 guidance of $3 billion to $3.2 billion in adjusted EBITDA, and $1 billion to $1.2 billion in free cash flow before growth.

We expect to update and narrow these ranges, following the completion of the summer season on our third quarter call in November and we'll also provide guidance for 2017 at that time.

During the second quarter call and into July, NRG made significant progress in strengthening our balance sheet and financial flexibility, as we took advantage of favorable market conditions, by significantly extending corporate maturities while continuing our deleveraging efforts.

Since we embarked on our current corporate debt reduction program in the fourth quarter of 2015, we have now retired a total of $642 million of NRG level debt. In addition, through two successful unsecured notes offerings totaling $2.25 billion, NRG significantly extended corporate maturities at lower rates, than the shorter dated maturities which were retired using the proceeds from these offerings. We also successfully extended both our corporate revolver from 2018 to 2021, and our secured term loan from 2018 to 2023. These transactions, when combined with the overall debt reduction achieved since late last year, result in approximately $50 million in annualized interest savings for NRG. Taking into account the $10 million in annualized dividend savings we captured in the second quarter through the redemption of our convertible preferred, interest and dividend savings combined drive incremental improvements in free cash flow before growth on an annual basis at the NRG level of approximately $60 million.

Finally, NRG has just entered into an agreement with NRG Yield to sell our remaining 51% interest in CVSR, resulting in expected cash proceeds to NRG of approximately $180 million. These proceeds are derived from two sources. First, taking advantage of incremental secured debt capacity at CVSR. In July, we closed on $200 million in new non-recourse secured debt. NRG's share of the net cash proceeds of which is $101.5 million. Second, we agreed to sell our remaining 51% stake in CVSR to NRG Yield for $78.5 million in cash and expect that transaction to close this quarter.

The total cash proceeds from these transactions further increase NRG level capital for allocation, which you'll find updated on slide 10. Turning to that slide, 10, the cash proceeds of $180 million from the CVSR transaction increased total 2016 NRG level capital available for allocation to just under $1.9 billion. The proceeds from CVSR also increased the portion of NRG level capital allocated to debt or convertible preferred reduction, which now stands at just under $1.5 billion for 2016.

On our first quarter call, we had earmarked the net proceeds of $210 million from our Midwest Generation capacity monetization toward the potential redemption of our convertible preferred stock. Having now redeemed the convert for $226 million versus the $210 million reserve we'd established for that purpose, a portion of the CVSR proceeds helps make up the difference, or $16 million. $59 million of the CVSR proceeds was used to offset the financing fees incurred in connection with the maturity extensions, allowing us to maintain the total capital allocated toward absolute debt reduction. The balance of the CVSR proceeds or $105 million, will be used to increase the reserve established for the remainder of our 2018 notes, from $325 million to now, $430 million.

Turning now to slide 11 for an update on the NRG level capital structure and leverage ratios. As a result of our significant progress in debt reduction and maturity extension, the remaining balance of our 2018 unsecured notes now stands at only $587 million and is our only remaining outstanding debt maturing prior to 2021.

Looking to NRG's maturity profile in the upper left of that slide, including our corporate revolver as of the third quarter of last year, NRG had about $6.7 billion in total debt maturities through 2020. To put our progress toward strengthening our balance sheet into perspective, as a result of the continuing deleveraging and opportunistic refinancings, today, we have less than $900 million maturing through 2020. A reduction of approximately $5.8 billion in less than a year.

While we'll continue to be opportunistic when market conditions are favorable, this increased flexibility allows us to be more selective, and less exposed to the type of short-term swings and volatility in the debt markets we saw earlier in 2016. The added benefit, as I mentioned earlier, is that in the process we've already achieved approximately $60 million in annual dividend and interest savings, which similar to the significant decrease in environmental CapEx which follows 2016, helps further improve our ability to translate EBITDA into free cash flow in 2017 and beyond.

Finally, as you can see in the updated table in the upper right-hand of the slide, we remain on track to drive our corporate debt-to-EBITDA ratio well below our long-term target of 4.25, allowing us to maintain adherence to the principles of prudent balance sheet management through the commodity cycle.

We're very pleased with our progress on the balance sheet side and I want to recognize the folks in our finance, accounting, and legal departments in particular for their outstanding efforts this year in making these successes possible and moving NRG forward in achieving our balance sheet goals for 2016.

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

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

Thank you, Kirk. To close, I want to leave you with our scorecard on slide 13. We have made excellent progress on all our stated objectives from simplifying the company and streamlining costs to strengthening our balance sheet and creating financial flexibility to better manage this commodity cycle.

Importantly, I want to note the significant progress we have made in continuing to strengthen the relationship with our strategic partner, NRG Yield. This partnership provides yet another significant point of differentiation between NRG and other IPPs, adding to our stable base of earnings and allowing us to replenish capital for assets we develop and drop down with strong returns.

Last quarter, we focused on strengthening our yieldco by putting in place a dedicated CEO to focus solely on growing this business. This quarter, we enter into an agreement to drop down NRG's remaining stake in CVSR. Going forward, we remain committed to finding and developing projects that we complete in the dropdown pipeline. Throughout the organization, our performance and progress in meeting our objectives has been impressive and I look forward to updating you on our continued progress over the coming months.

Andrea, we're now ready to open the lines for questions.

QUESTION AND ANSWER SECTION

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

Greg Gordon
Evercore ISI

Q

Good morning, gentlemen. Great quarter. Thank you.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Hey. Good morning, Greg.

Greg Gordon
Evercore ISI

Q

Can you just give us maybe a little bit more granular detail on the strength of the – in the Generation business in the quarter because it's at odds with the performance of some of your competitors? I'm wondering whether it has to do with outage timing or other nuances going on there.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Sure. Look I mean I – as you could see on my prepared remarks, Greg, Generation business actually benefited from three main reasons. One was the hedge profile that we had and the opportunistic hedging that we've consistently done over the last couple of years. Two, we have actually focused on managing costs. We look at optimizing our maintenance CapEx, our outages and we're trying to be consistent with the way the portfolio is running today which is not the same way the portfolio ran before. So, we need to adjust our operating philosophy.

And then last one, I think we also benefited from capacity revenues coming from our South Central region, where in the past, we've said that we were able to move some megawatts into the PJM capacity auction. And so those are the three big drivers on the Generation business, Greg.

Greg Gordon
Evercore ISI

Q

Thanks. Second question, on your slide 6, you show that the market conditions have improved demonstrably in ERCOT, and some investors are frustrated that despite the gas price move, we haven't seen a commensurate move up in power prices on PJM.

I put that to sort of the way the dispatch curve looks and you're kind of in the deep part of the smile now where gas has to keep moving up for gas plants to move back ahead of coal, but there's also a theory that coal was burning out of dispatch and that's been putting pressure on power prices in that market. And that now that that's no longer happening, we might see better conditions. Can you comment on whether either or both of those are true? And if not, what's your outlook for PJM power prices?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Look, I mean, I've heard the frustration about moving gas prices up and power not following through. I think what I wanted to represent in this slide is that in Texas, it's actually – we have seen dark spreads move significantly both in terms of heat rate expansion and following natural gas. With respect to PJM, I think the story's slightly different.

If you look at gas basis in PJM, have actually significantly decreased over the summer. And I think that is putting some pressure on the spark spreads. I am not of the theory that coal generators are running uneconomically in the region. I just think that you're seeing an influx of combined cycles, you're seeing pretty good gas prices or low gas prices compared to the forward markets a couple of months ago. And I think the combination of those two are just putting some pressure on the spark equivalent.

On a long-term basis, as the market implemented capacity performance standards and we're seeing this massive turnover between coal and natural gas. We should expect more pressure on spark spreads. I mean the capacity performance market was designed to ensure that generators have more availability during scarcity conditions. So as we look past 2017, and towards the end of the decade, I expect to have more pressure on the spark spread in PJM and be more constructive on capacity prices. I mean that's why we shifted the strategy in the East, particular in PJM, towards becoming a capacity resource as opposed to providing energy.

We still maintain that option on energy and it's a cheap option, but most of the investments that we have made are on the back of what we think is a more constructive part of the market which is the capacity one.

Greg Gordon
Evercore ISI

Q

Okay. Thank you, guys.

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

Michael Lapides
Goldman Sachs & Co.

Q

Hey, guys. Two questions. One shorter term, one longer term. First of all, shorter term, you reported and congrats on this, what looks like to be a really healthy, really strong second quarter and yet, you left 2016 guidance intact rather than raised. Just curious, what are some of the headwinds you see for the second half of 2016 that make you keep guidance at the current level?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Hey, good morning, Michael. Look, as I indicated, I think we're tracking towards the upper end of the guidance. I mean, it is the second quarter. We have a lot of the summer ahead of us and I think it's just prudent to keep our guidance the way we had it. We're very comfortable with the position that we have, we're very comfortable with the hedging that we have for balance of the year.

But let's keep in mind that we still have August and September which can be really hot in Texas. And I think it was – it's just – from a prudency standpoint, we felt that it was the right thing to do to maintain our guidance.

Michael Lapides
Goldman Sachs & Co.

Q

Got it. Okay. And thinking longer term, I mean if you just look at the company's portfolio, if there's a scenario where you're no longer the principal of – owner of GenOn, how does the board think about the market positioning of NRG – legacy NRG in terms of markets you have significant exposure to like ERCOT and then markets maybe in a next GenOn world like PJM where you'd have pretty limited exposure?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Look, Michael, we're venturing here in the realm of the possible and what I will tell you is that in PJM, we have actually two ways of participating in that market. Clearly through the GenOn entity but also our Midwest Generation portfolio that we acquired from Edison Mission and that's close to 4,000 megawatts. So it's not necessarily an inconsequential position. Actually in many places, you have the scale and the scope.

So, when we think about the portfolio, even without in the possibility of not having the GenOn entity, we feel very comfortable with the geographic diversification that we have across – in all competitive markets, including PJM. And just keep in mind that in the latest auction, actually the ComEd area where our Midwest Gen portfolio sits was probably the one that was the most constructive in the capacity auction results.

So, clearly, we will re-evaluate the makeup of our portfolio, but I think that doesn't necessarily changes the underlying value proposition of an integrated platform with diversity across fuel, merit order, and geographic location, and with a focus towards the more stable part of our business which is contracted assets through our renewable development portfolio and our partnership with Yield, our capacity focus, and our Retail business. So, I don't think it changes the value proposition for NRG or our strategy going forward.

Michael Lapides
Goldman Sachs & Co.

Q

Got it. Thank you, Mauricio. I'll hop back in the queue.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Thank you, Mike.

Operator: Thank you. Our next question comes from the line of Julien Dumoulin-Smith with UBS. Your line is now open.

Julien Dumoulin-Smith
UBS Securities LLC

Q

Hi. Good morning. How are you?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Hey. Good morning, Julien.

Julien Dumoulin-Smith
UBS Securities LLC
Q

So, I wanted to ask a quick question real quickly around the Texas outlook. Obviously, things are evolving in that space and I wanted to get a sense real quickly as to what your thoughts are both as to retirements of not just coal assets but further steam assets and gas assets, more broadly, as well as the potential for any kind of settlement as it relates to the haze regulations with the EPA and how that might ultimately play out.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director
A

Julien, I mean, I've said it before. I think the Texas market continues to be one of the most effective markets in the country, particularly from where we're starting. If you look at the spark spreads, if you look at power prices, they were completely oversold the last couple of months. And that basically shifted some of the bullishness that we have in that respective market.

When you look at the fundamental there, even the first half of the year, we have very, very strong growth, and if I'm not mistaken, yesterday, we set a new all-time record in Texas. So, load growth continues; load growth is very robust. We like the market structure. We like the higher price cuts. I think there are improvements that need to happen, particularly on ORDC and to make sure that we have better price signals when we enter into scarcity conditions.

And as you mentioned, I mean I think there is a risk for rationalization in supply, in retirements. My expectation is that, if we continue to see this current level of pricing, there are some old steam units and perhaps some environmentally uncontrolled coal plants, that will retire because they are not going to be able to make the math work when putting back in controls.

Look, I mean I don't want to be myopic in terms of the regional haze and what will happen, and it stayed and we're going to go through the process. But behind the regional haze, you have the ELG. You have the 1-hour SO2. I mean you have a number of other environmental regulations. I think ultimately, smaller or medium sized coal units that are not controlled or well controlled, the outlook is just not going to look very promising. And perhaps it delays the retirement decision one or two years, but I think, ultimately, people will make the right economic decision. And the low gas price environment and the low spark spread environment accelerated some of that.

I mean, we actually filed to mothball one of our old steamers. It was needed for reliability. Other generators have done the same. I think you're going to continue to see that in the coming years if something doesn't drastically change in the market. But we're starting to see some recovery, Julien.

Julien Dumoulin-Smith
UBS Securities LLC
Q

But just to be specific here, I mean, do you see a potential for a settlement with EPA, a universal – either with the haze or more broadly?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director
A

I mean, it's very difficult to speculate a settlement on haze with the EPA. I mean, as I said, I mean, I think there is a number of other environmental regulations that will be limiting. And even under the regional haze, you have other parts of that regulation that's still applicable in the region. So my view and my take is perhaps a little bit more generic that environmental regulations are going to be more stringent. And if you don't have good backend controls or you're in a good location or you're actually burning a lower sulfur coal, that – making the math work will be difficult.

Julien Dumoulin-Smith
UBS Securities LLC

Q

Got you. And then just a follow-up, in terms of GenOn, and I know this is kind of a little bit off the reservation, but in terms of just your ability to deal with any allocated costs, in the eventuality that something does happen there, how are you feeling about your ability to mitigate those costs? Now, I don't know if that's too far astray or not, but obviously last time you made a comment, how are you feeling about your efforts now to re-evaluate your cost structure and potentially mitigate the allocated costs, if it truly does come to it?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Look, Julien, I mean, I don't want to speculate on how we're going to be allocating cost and any potential outcomes. I mean, I think what I said about the GenOn situation is that, it's early. We are in active dialogue – or GenOn is in active dialogue with their creditors.

I've laid out kind of the three principles that we're going to apply as we navigate through this process, simplifying the capital structure. And we are maximizing value and ensuring that we don't impact negatively the credit metrics of NRG.

And as we go through this process, we're going to be using these three principles to make sure that we make the right economic decision. So, I mean, beyond that, Julien, it's really just – speculating is probably not the prudent thing to do as we go through this process right now.

Julien Dumoulin-Smith
UBS Securities LLC

Q

Got it. Thank you very much.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

All right. Thank you, Julien.

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

Abe C. Azar
Deutsche Bank Securities, Inc.

Q

Thank you. Good morning.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Good morning, Abe.

Abe C. Azar
Deutsche Bank Securities, Inc.

Q

On slide 13, most of these 2016 strategic priorities have been accomplished already. What are some of your strategic priorities for the second half beyond the GenOn restructuring, and do you have any further opportunities to pursue asset sales or dropdowns?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Look. I mean, I'm very pleased with the progress that we have made on all the priorities, and that has afforded us the opportunity to be looking at some other strategic objectives clearly accelerating the GenOn discussion is one, but in a more general theme, I'm looking at – continue to perfect the integrated platform that we have. And that goes from the Generation portfolio to Renewables, to our Retail, whether it's residential or C&I. I am evaluating what parts of the value proposition that we have need to be strengthened and which opportunities are available in these four core businesses that we have.

So, beyond just giving you more specifics, what I will tell you is that perhaps we're pivoting weaker towards looking at other strategic opportunities as we have made such a good progress on the deleveraging front.

Abe C. Azar
Deutsche Bank Securities, Inc.

Q

Great. And perhaps similarly with the reduction in debt you have in place for 2016 and the reserves for the 2018 maturities, will 2017 capital be more focused on shareholder return or growth capital or...

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Yeah. I think that's fair. When I think about capital allocation, I made the case that we needed to focus on deleveraging that was the right thing to do given where we were on the commodity cycle. As we are getting now significantly below our 4.25 target, we can start focusing on returning capital to shareholders or some other growth investments. So, as I said, it's been good progress and perhaps a little ahead of schedule that we can actually turn our attention into that. But for 2016, most of the capital is committed. For 2017, certainly we will evaluate the other two options that we have.

Abe C. Azar
Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Praful Mehta with Citigroup. Your line is open.

Praful Mehta
Citigroup Global Markets, Inc. (Broker)

Q

Hi, guys.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Hey. Good morning, Praful.

Praful Mehta
Citigroup Global Markets, Inc. (Broker)

Q

Hi. So first question was on GenOn, I just wanted to – and building on, I guess, a previous question. I just wanted to confirm and understand, how strong is the ring fence? As in, is there any risk that the GenOn credit or creditors have any claim at the NRG level or is the ring fence tight enough that those two boxes will be completely independent?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Yes. Look, I mean I feel very comfortable with the ring fence around GenOn. We have made the right operational decisions to position the portfolio to benefit from market trends at PJM. All the cash within the GenOn entity has remained in GenOn even inclusive of the asset sales which from my perspective were done very opportunistically, and at the right time, and at very good multiples. So from my perspective, the integrity of that entity is pretty strong. But, Kirk, do you have anything to add there?

Kirkland B. Andrews
Chief Financial Officer & Executive Vice President

A

Well, I think you summarized it well. I mean, at the outset of the transaction when we closed it, we announced we restructured it for a myriad of reasons as an excluded project sub on a non-recourse basis. And from a governance, operational, and financial perspective, we have adhered to all principles around that.

So that, I would just echo that contributes to our confidence that we've established what's necessary to ensure from a financial standpoint and from a non-recourse standpoint, it is consistent with the objectives that we set out and we operated it, both financially and operationally, in line with those principles.

Praful Mehta
Citigroup Global Markets, Inc. (Broker)

Q

Got you. And secondly, in terms of the sensitivity to gas prices, just wanted to understand how Retail fits into the Generation side. And it's interesting, you clearly have Retail performing well and at low gas prices clearly it benefits. But then I wanted to understand, as gas prices go up, as you show in these sensitivities, what is the assumption around what happens to the Retail business, EBITDA and margins, under those situations?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Look, I mean when you think about the Retail book, just – our fixed price obligations on Retail don't extend beyond 6 to 12 months. And for the most part, they're hedged. They're hedged to expected lows, plus some variability around weather and different weather scenarios. We buy options to manage that variability.

So if – in the short term, if gas prices increase, it doesn't necessarily impact our Retail business. I think in the long term, we have the opportunity to price low at the current market prices. So, it's further mitigated by that. I think where you'll see the difference is just in terms of the cycle around Retail in a low commodity priced environment where you have higher loads, then you can benefit from that because I guess on the margin on megawatt, you have expansion on margins.

That situation doesn't necessarily happen in higher gas prices, particularly in the short term. Again, longer term, you always price at market, so you don't necessarily – our Retail business is not necessarily impacted by it.

Praful Mehta
Citigroup Global Markets, Inc. (Broker)

Q

Got you. Thank you, guys.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Ali Agha with SunTrust. Your line is open.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Hey. Good morning, Ali.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Good morning. Mauricio, given the fact that the next big or the next maturity at GenOn is in 2017, for those of us looking at it from the outside, is it fair to say that whatever resolution you like to achieve most likely happens next year as we get closer to maturity and minds are more fixated on getting something done or might something actually play out this year?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Look, I mean, it's hard to say. I mean, this requires a number of stakeholders in the process. Certainly, the next summer is the first maturity that we have, the 2017s. From my perspective, we're trying to have a comprehensive long-term solution for GenOn. And that just resonates with one of the principles that I outlined, which is simplifying the capital structure or simplifying the message and the organization at the NRG level. So I'm looking at finding a long-term comprehensive solution and not necessarily just dealing with one specific maturity or not.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Okay. And then secondly, then just from again a big picture perspective, when you look at your new sort of cost profile given the actions you've taken, you've identified, and you couple that with your contract and capacity profile that you laid out for us, as well as the forward curves as they stand, are we still looking at a scenario directionally that implies downward pressure on 2017 EBITDA versus 2016 or can that be now mitigated with the cost actions you've taken?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

Look. I mean, I'm not going to venture into providing guidance for 2017 or any indication. I think what I can tell you is that our CapEx program gets reduced by $650 million. And starting in 2017, I said it before, we're going to harvest some of the investments that we have made over the past two to three years to reposition the portfolio.

So I think that combined with, as you said, some of the cost actions that we have taken in terms of streamlining of the organization, reducing costs, resizing and recalibrating businesses that were underperforming, so I think the combination of that, plus the outlook that we've had on 2017, particularly around natural gas, which is starting to play out, I think when you combine that, it starts giving you at least some direction what some of the levers and the drivers are.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Right. And just one quick follow-up. The assets that you've sold, the $563 million in proceeds, can you just remind us the annual EBITDA that goes with those asset sales?

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

A

I am not sure that we've disclosed that, but if we have, we'll follow up with you. What I will tell you is that all the asset sales that we did, one, were non-core assets; two, they were done at pretty strong multiples compared to the EBITDA, and I think, three, capitalized actually in some of the particular outcomes on the capacity auctions and energy market.

So we were – I was very pleased with the execution. It exceeded our initial target. And I think for now, we're going to pause. I mean, I don't think there is any additional asset sales that we need to do but I don't believe we have disclosed that EBITDA number.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Operator: Thank you. This concludes today's Q&A session. I would now like to turn the call back over to Mauricio Gutierrez for any closing remarks.

Mauricio Gutierrez
Interim President, Chief Executive Officer & Director

Great. Thank you, Andrea. I think that's all. Thank you, everybody, for participating on our call.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.