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NRG Energy, Inc. (NRG)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the NRG Energy Inc.'s First Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker's 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. Please go ahead.

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

Thank you, Kim. Good morning and welcome to NRG Energy's first quarter 2022 earnings call. This morning's call will be 45 minutes in length and have been 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 webcast.

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.

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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. And also on the call and available for questions, we have Elizabeth Killinger, Head of Home; Rob Gaudette, Head of Business and Market Operations; and Chris Moser, Head of Competitive Markets and Policy.

I'd like to start on slide 4 by highlighting the three key messages for today's presentation. First, our business delivered strong results in the first quarter and we are maintaining our 2022 guidance ranges. Second, we are well-positioned going into the summer with a balanced risk management strategy designed to provide stability through volatile market conditions. And finally, we continue to advance our strategic growth priorities, moving closer to the customer while being excellent stewards of your capital.

Moving to the first quarter results on slide 5, we delivered top decile safety performance and $509 million of adjusted EBITDA. This result is in line with the first quarter of last year when adjusted for asset sales and the outage at limestone. But when including supply chain constraints and higher ancillaries, it is a very strong result driven by our core operations. The limestone power plant in Texas returned to service in April on time, on budget and ready for the summer. I want to thank the operations team for completing this project on schedule despite a difficult supply chain backdrop.

Now moving to Direct Energy Integration, we are reaffirming both 2022 and the full plan targets. As part of our capital light strategy, we have now signed 2.6 gigawatts of renewable PPAs in ERCOT with 45% currently in service and the remaining expected to come online over the next couple of years. These assets are geographically diverse within Texas and have an average tenure of 12 years. We will continue to execute on this strategy and grow our renewable PPAs. But I do expect the development of renewable projects to slow down in the near-term, given supply chain constraints and regulatory uncertainty.

Finally, we are executing on our $1 billion share buyback program, which Alberto will provide additional details and we are maintaining our 2022 adjusted EBITDA and free cash flow before growth guidance ranges. Over the past few months, we all have seen the significant increase in energy prices, particularly natural gas. I want to take a moment to discuss how our business is positioned to navigate through these volatile market conditions on slide 6. Beginning on the left hand side of the slide with our hedge tables for this year and next year, as you can see, we are well hedged against our expected load with a combination of our own generation portfolio and third-party hedges. This is by design as it also allows us to maintain predictable and stable margins while mitigating the impact of short-term market volatility for our customers. As a matter of fact, this is probably one of the biggest benefits of competitive markets. Retail companies that hedge can mitigate the impact of short term market disruptions for their customers. In the medium to long-term, our platform is uniquely positioned to manage the structural changes in commodity prices. We have a proven commercial team that manages commodity price risk across our portfolio, all the way from our power plants to our retail brands, providing them with significant visibility on the fundamentals of our core markets. On the retail side, our pricing team has significant insights on price elasticity given the scale and scope of our customer base.

And finally, we have a multi-brand, multi-channel, multiproduct strategy that ensures we're tailoring solutions for each customer segment while balancing customer retention and margins. We continue to execute on our five year growth roadmap and are making great progress across many of our initiatives as you can see on slide 7. On our last earnings call, I provided an overview of all the solutions and capabilities currently available and in

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development for our customers in two areas, Energy Services and Home Services. Today, I want to focus on one area of growth that I'm especially excited about, energy resilience. Goal Zero is our home energy resilience and storage company and has been part of NRG since 2014. When we acquired the company, their primary focus was to serve a niche market of outdoor enthusiasts and while they were a market leader in that space, the total addressable market was limited. Recognizing that extreme weather events and power outages were only going to increase given climate change and an aging power grid, we shifted the company's strategy to address energy resilience head on. Today, Goal Zero's energy resilience products are clean, accessible and affordable. Their power stations and solar generators are modular and portable, meaning they can provide resilience to any apartment, residential home or recreation vehicle of any size, something a gas generator or rooftop solar system cannot do. They're also scalable, enabling customers to design a resilient solution that can expand in the future, therefore balancing budget and need. Importantly, these products cost a fraction of what a standby gen set or rooftop solar system cost fully installed, which allows us to serve an even broader customer base. And they require minimal installation. These are just some of the reasons why customers love Goal Zero products, giving them a net promoter score above 70, a rating that is typically reserved for best-in-class brands.

In the last three years, Goal Zero has grown revenue at a 50% CAGR and gross margins of around 40%. While the overall revenue and gross margin of the business today remains small compared to the core operating platform, the energy resilience market is expected to grow at 50% CAGR through 2025. And we expect Goal Zero to grow along with it. And this is before considering external factors that could potentially drive growth even higher. For example, last December, California announced a ban on gas generator sales beginning in 2028. Such policy decisions by local and state governments will only increase demand for Goal Zero's products.

The team is already working on the next generation of solar power generators that will launch in 2023 with a focus on storage technology upgrades, enhanced home integration and a better digital customer experience. I look forward to providing you updates on their progress as we bring new products to market and integrate these solutions closer with our core energy offerings. 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 9 for a review of the first quarter results. For the quarter, NRG delivered $509 million in adjusted EBITDA, a $58 million decrease versus prior year excluding the impact of Winter Storm Uri in 2021. Results were reduced by $50 million for the divestiture of 4.8 gigawatts fossil generation assets in the East and West and the Whole Home Warranty business. In addition, the lack of availability of Limestone Unit 1 in Q1 2022 and other outages impacted negatively the quarter. Excluding these items, adjusted EBITDA would have been higher than Q1 last year and this strong result is driven by our diversified portfolio allowing us to deliver through inflationary pressures and commodity price volatility.

I'm also pleased to report the total impact of coal constraints has been limited to-date. In Texas, lower power prices helped mitigate the overall coal requirement versus expectations. And in the East, we were able to procure more than what we initially estimated. Looking forward, while we have seen overall improvements in the availability of coal, the US railroad delivery network remains fragile. And so, while we have made progress in mitigating the realized financial impact of the constraints, we continue to tightly manage our coal burn.

Moving to Q1 results by geography, Texas results were in line with prior year when factoring in the previously discussed plant outages. Turning to the East, West and Other segments, as in prior quarters, we were able to leverage our portfolio of natural gas assets to deliver strong results through a volatile market. These benefits were offset by the impact of the previously discussed divestiture of generation assets and Whole Home Warranty business. We continue to make good progress in our synergy target, delivering $31 million in incremental

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synergies during the quarter. We are quite pleased with this progress and we are well on our way to deliver on our 2022 and full plan commitment.

Lastly, you will note at the bottom of the slide that we are maintaining our previous guidance ranges for the full year adjusted EBITDA and free cash flow before Growth. We remain focused on executing our overall 2022 plan and we look forward to providing you additional updates throughout the year.

I will turn now to slide 10 for a brief update on our 2022 capital allocation. Moving left to right at the midpoint of our free cash flow before Growth guidance remains unchanged at $1.290 billion. Next, the reminder on Winter Storm Uri. The total net 2021 earnings impact of the storm to NRG was $380 million which included an accrual for $696 million of expected mitigants. As we discussed on our fourth quarter call, we expect to receive $689 million by the end of the second quarter and this will be partially offset by $97 million of bill credits that will be issued to C&I customer for a total net cash inflow of $599 million to be realized in 2022.

Moving to the right and focusing on the changes from last quarter shown in blue, total expected cash used to fund our $1.40 per share dividend decreased by $5 million as a result of less shares outstanding. Next, we have made good progress in executing our $1 billion share repurchase program. Since the beginning of the year, we have repurchased $262 million to be added to the $39 million in 2021. The remaining balance of $699 million will be completed over the next several months. Lastly, we expected to have $315 million of remaining cash available for allocation, of which we have earmarked approximately $100 million to fund the initial project in our $2 billion growth plan, which also includes the initiatives that will be launched to accelerate the growth of our Goal Zero business. Back to you, Mauricio.

Mauricio Gutierrez

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

Thank you, Alberto. Now turning to slide 12, I want to provide a few closing thoughts on today's presentation. We delivered very strong results for the first quarter despite volatile market conditions, and we are well-positioned to deliver through all market cycles. Despite the backdrop of commodity price volatility, inflation and difficult economic conditions, one thing remains the same. Customers value our brands and the products and solutions we offer. We continue to be relentlessly focused on not just meeting the consumers where they are, but also looking around the corner to meet them where they're going. I have never been more excited about the future of NRG and I look forward to updating you on our progress along the way as we execute on our growth roadmap. So, with that, I want to thank you for your time and interest in NRG. Kim, we're now ready to open the line for questions.

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QUESTION AND ANSWER SECTION

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

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Hey. Good morning, team. Thanks for the time. Hope you guys are well.

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

A

Hey, Julien. Good morning.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Good morning. Thank you. Hey, listen, so, the marketplace has been focused on the volatility in the commodity price uptick of late. And obviously, the pivot that you guys have been towards an asset-light model has gotten folks attention here. Can you guys address more squarely how you're thinking about mitigating those risks, especially in the longer term basis as you think about not just the basic blocks, but the peaks and troughs if you will of consumption and how you're addressing the risk mitigation there? Just to try to address some of these market fears, especially given how quickly the overall market backdrop has been moving? And then maybe in tandem with that, can you speak to how your retail pricing is evolving, i.e., how quickly are you able to reflect this back to your customers right now? It seems like power to choose is seeing something of an uplift of late?

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

A

Yes. Julien, well, okay, so this is a really long question. And you know...

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Take it as you will?

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

A

I think it'll take a long time to have this conversation. But let me just say that at the end of the day, we have designed a platform that is stable and that provides visibility and stability on markets, right. So, what we provided you on one of the slides is not just how we are positioned on the short-term, medium-term, but also to the long run. So for 2022 and 2023, we're pretty well hedged against expected load and I feel very comfortable with that.

As you think about, perhaps – if you have a structural change on the commodity price curve that is longer term, first of all, I think the industry does a really good job in passing through those costs, not only increasing costs but also decreasing costs. I mean, that is one of the strengths of competitive markets. But the second thing and I think this is very important are the competitive advantages that we have as a company. And I'm not going to list again everything that I put on the slide. But I will just tell you this. We have best-in-class risk management

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capabilities with our commercial team. We have a retail pricing team that is pricing customers every day. And the insights that we get from that and the scale and scope of our customer base allows us just to have really good insights in terms of pricing, depending on different customer segments.

And finally is our unique go-to-market strategy that we laid out multi-brand product and channel that allows us to tailor solutions for each of the customer segments. So now, obviously that's the big structure of how we provide more stability of margins. Now keep in mind that we have also a lot of tools to be able to manage specific volatility for certain hours and for certain months, not only we have the flex of risk management capability on the supply side, on the wholesale side and tremendous amount of information on how the power grid works. But also on the retail side, remember we're working very closely with our customers to incentivize demand side management. So, we actually help our customers lower their energy bills by incentivizing them to do demand response. So, not only we have capabilities on the wholesale side, but we also have tools on the retail side to ensure that we balance our position. And at the end of the day, the goal is to have stable margins and help our customers with managing their own bills.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Got it. All right. Excellent. And if you don't mind, Mauricio, I mean more strategically, you guys have been on this journey towards an asset light model for a little while here. How does the latest uptick in commodity prices impact that, right? And what I mean by that is, is there actually an opportunity to monetize your generation assets at a yet a higher value now? Does that actually tilt you towards monetizing further rather than, this perception that owning generation right now is the right way forward?

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

A

Well, I mean, I think we embraced the asset-light strategy a few years ago. We launched the renewable PPAs, Julien, and I think everybody can see now the benefits of it, given the increase in commodity prices. So, I am very pleased with the team and how they executed. Today, we provided one additional disclosure, which is how many of those megawatts now are online or on service. We continue to work with developers and our partners to continue growing those megawatts add value for us and also add value for them because we provide them a much needed long-term contract, so they can actually finance those renewable plants and bring them to market.

With respect to how I think about the generation portfolio in context of our retail, remember now we – a few years ago, we shifted the focus of the generation portfolio. Now their purpose now is to serve our customers. And I think we have done exactly that by rightsizing our generation portfolio, by making sure that we keep the assets and not just own but also third-party contracted assets to better serve our customers in the most cost effective way. So, I think that's going to continue to be our North Star as we look up, optimizing our portfolio and the rest of our generation portfolio going forward.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Got it. Understood. Okay, guys. Thank you.

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

A

Thank you, Julien.

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Operator: Our next question comes from the line of Shahriar Pourreza with Guggenheim. Your line is now open.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Hey. Good morning, guys.

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

Hey, good morning, Shar.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Mauricio, I just want to – just follow up on Julien's question, maybe just drill down a little bit on the capital-light strategy, especially if these curves aren't transitory, right, the moves. I mean, maybe looking at sort of a slightly different angle, is there any potential interest even on the margin of owning generation, especially if the curve moves aren't transitory? And I couldn't get a sense with your prepared remarks, do you believe that curve moves are transitory or sort of sticky and even have more upside given what's been going around us? So, what are you assuming with your planning assumptions?

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

Well, so, let's start with the last part of your question. I mean, when I look at the forward curves today, particularly in ERCOT. From my perspective, a forward curve should actually reflect the fundamentals of a market. And when I look at the fundamentals of the ERCOT market today, what I see is very healthy reserve margins. I think this year, we're going to be around in the high 20% and over the planning period on the next five years, I think it goes to low 30%. I think this has been the highest reserve margin since the market went competitive more than a few years ago.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Right.

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

So, now there is a fundamental shift here in terms of the composition of that reserve margin, and that is the amount of renewable energy that we have in the market. So, when renewables perform well, we have plenty of capacity to meet load. When renewables don't perform that well, it's a little tighter. But I mean when you look at a 26%, 27% reserve margin for the year, it's kind of hard to justify some of the scarcity hours that are embedded in the forward prices. So – and if you put on top of that how ERCOT is running the grid, which is very conservative, I would think that perhaps there is a little too much excitement right now in the forward market that is dislocated from the fundamental reality of the market. So, I mean that's how I think about it. And...

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Got it.

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

A

...I mean that's my perspective on the market. Obviously, market prices for us have been very muted in our business strategy. Our platform, our integrated platform will perform under a number of commodity price cycles, whether it's low or whether it's high and we've proven that. Now with your first question around what does that mean for our asset-light strategy and for that matter for our supply strategy.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Right.

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

A

Our supply strategy will always be informed by market dynamics, always. It's not like we have a strategy and then we go to bed and wake up three years later. So, based on what we're seeing now and importantly, what ERCOT and the PUCT are doing to provide more regulatory certainty around market design changes, that is going to inform how are we going to optimize our generation portfolio going forward. I don't know if that means more assets, capital light megawatts. I don't know if that means partnering with some developers to bring new generation to market. I think at the end of the day, we all recognize that we need more dispatchable generation in the system and that's a good thing. And we know that we can play a big role of that, but the role that we're going to play is different than what we have done in the past.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. Got it. That's helpful. And then, Mauricio, can you just maybe be slightly more specific on what you're seeing in the PPA market today, given sort of the commodity moves and the tariff circumvention, I mean have you been able to add contracts as needed this spring and any issues with your current contracts that maybe under construction now? So, just maybe elaborate a little bit on potential slowdowns in that market.

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

A

Sure. Well, I'm going to ask Rob Gaudette since he's been leading, our renewable PPA effort for now quite some time. And now you've, you have him here live. So, Rob.

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

So, good morning. Let me take that in parts. So, as we disclosed today, we've got 45% of the portfolio flowing, right. So, we've got no risks on that side, which is a good thing and it's working out for us in a lot of ways. We also have an additional set of contracts – you can – the 55% that's out there. We have minimal like less than 100 megawatt of stuff that we're expecting this year. And then the stuff – the rest is out in the 2023 and 2024. We are in communication with these guys on a monthly basis. If they're starting into their construction phase, so that depends on when the contract starts. We're monitoring that just like we would any other power plant. And just – we've said this before, but I'll say it again for history, we're in the market every, call it, three to six months with a new RFP, looking and assessing every type of product, so that we can build a portfolio for the business. As you would expect, people's prices are going up over time and a lot of that uncertainty is around things like labor or general inflation around steel. The commerce lawsuit right now, that's obviously scared the market. To date, any

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of our contracts that we have out in front of us that are not flowing, we haven't received any notices or issues, we monitor that and we talk to those guys fairly regularly. But Mauricio said it and I concur, I would expect given the price environment, meaning the cost environment for developers, I mean, I would expect a little bit of a slowdown in renewable development kind of across the country. Does that answer your question?

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

It does. It was actually pretty comprehensive. Thank you, guys. I appreciate it. Thanks, Mauricio.

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

A

No problem, Shar. And just to put a finer point on what Rob said...

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Yeah.

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

A

...I mean, the remaining 55% is basically 2023 and 2024. We don't have any exposure right now in 2022 from projects that will come online, I mean it's de minimus.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Right.

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

A

So, we feel very comfortable with our portfolio going forward.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Yeah. No, this is a very good execution in light of what we're seeing. So congrats. Thanks, guys.

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

A

Thank you, Shar.

Operator: The next question comes from the line of Angie Storozynski with Seaport. Your line is now open.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Good morning, guys.

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

Good morning, Angie.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

So my first question is about – good morning. About Midwest Gen. Can you tell us anything about these assets? I mean, do you have additional coal supplies to run these assets more in this current natural gas price environment and how that ties into your earnings outlook for this year and maybe even forward years?

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

Yes, Angie. So, let me just start by saying that the Midwest generation portfolio, we announced a few retirements at the Investor Day, if you remember Angie. And all we're doing right now is, we're – some of those assets are just moving to retirement. I think we extended one of those – we extended Waukegan (sic) [Will County) one month just because we need to burn the coal pile. And that is, I mean, of course, it will capture additional economics. But the most important thing is from an environmental standpoint, I think it's better that we just go through the pile as opposed to bringing trucks and getting the coal out. So, I think that's the main goal.

And with respect to whether you can extend the life of the assets that we announced retirement? No, we're not going to, I mean, and the main reason why is because there is a tremendous amount of logistics that go into it from personnel to maintenance dollars to fuel supply. So, once you make a decision like this, it's very hard to pull back and we are not going to pull back. Obviously, the other two assets, Powerton and Joliet, we'll continue to operate in, whether you have higher energy prices or higher capacity prices or whatever dynamics are, they will – we'll optimize those assets. Now, I want to remind you, Angie, that we actually zeroed out the contribution of the Midwest Gen portfolio on our economic outlook that we provided to you at our Investor Day. So, I think this is an important part, so we actually, have no – we haven't reflected any economic contribution from this asset.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

Okay. And moving on to Texas and also your 2022 guidance, so you mentioned that any sort of constraints related to coal have subsided even though rail services are still fragile. You had low realized power prices in Texas while Limestone was out. Limestone is back. So, those were two big drags on your 2022 guidance. So, is there any offset, as we stand right now to your expectations for 2022? I'm just wondering why they, they haven't moved up.

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

Yeah. So, I mean, as I mentioned, we had a really strong quarter, first quarter, the team did an excellent job in managing supply chain issues with coal, particularly product availability. And as Alberto mentioned, now the issue is around railroad logistics and the cycle times. We're working with our railroad partners as we go into the summer, so those constraints, so those supply chain issues have moved now from product to transportation. I think, I'm not – I'm very comfortable that the team is going to manage them well. But, at the same time, we need to be prudent. In the past, Angie, I have revised our guidance in the third quarter call and I am going to continue to do that. I'm very optimistic where we are. And now just to keep in mind, just like we're managing some of those headwinds that we had in the outset of the year, we're also deploying some growth capital dollars. And I think we're earmarked for this year around $100 million, which is 5% of our $2 billion. So, that is embedded within the

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guidance. So, you have some puts and takes. And one, we have been able to manage really well our coal constraints, that have been offset by the capital that we're deploying for growth, which will have a return. But nonetheless, it was not part of the original guidance. So, think of that as a plus or minus.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Okay. And lastly, looks like the summer came early to Texas or it's about to come early to Texas. We wish we had the case in the Northeast. But anyway, so how, I mean, everybody talks about the strong loads and I know that the biggest risk to your retail assets or retail earnings is your accurate estimates of load and hedging of that load. I mean as you go into this next week – next couple of days, like how concerned are you?

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

A

Okay. Well, I will ask Rob to – with his new responsibilities to address that. And yeah, Rob?

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

So, I'm not going to go into that how scared I am on a Friday before a weekend event, but I'll tell you that, we saw and I'm sure you've seen, the weekend was trading, call it in the $300 to $400 range at the beginning of the week, that was a concern around heat, which we are getting early heat here in Texas, but it's also a concern about lack of wind. The heat has moderated over models, the market is half of where it was and wind is up. But as we go into these events, we feel very comfortable where we're at because we are hedging up our load going into it. And then when it comes to excursion time, inside of a week or two weeks, we're managing and watching that. But we also have our fleet ready to go for events like this. So, I'm going to sleep okay.

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

A

Angie, and if I can, just take a little bit of a step back and I know, Rob, focus on NRG specifically, but I mean, keep in mind that the ERCOT system is designed for summer weather. And I think we have been very successful in managing through a number of record peak loads. So, yes, this is early heat, but it's not like the system, the electric system wasn't designed to handle this type of load. So, I mean, I feel that the supply and the amount of capacity that exist in the market is good to meet the demand and we have a lot more capability to actually manage demand today than we did before. So, as Rob said, I think our risk management and our supply is going to be okay, as we go into the next couple of days and then going into the summer.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Very good. Congratulations. Thanks, bye-bye.

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

A

Thank you, Angie.

Operator: The next question comes from the line of Keith Stanley with Wolfe Research. Your line is now open.

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Keith Stanley
Analyst, Wolfe Research LLC
Q

Hi. Thank you. First, just wanted to clarify the prior question. The $100 million of growth investment that's earmarked for later this year, is that part of CapEx or is that in operating cost and could impact EBITDA for the year?

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

Good morning, Keith. It's a combination. If you remember during Investor Day, I said, as we start deploying this growth capital its going to be a combination of OpEx and CapEx. And the way you need to think about the OpEx is, when we're doing this organic growth, some of it is going to be just incremental selling and marketing and acquiring customers. Remember the growth is not just adding new capabilities, but also growing our core offerings of power, gas and dual fuel. So, it's going to be a combination. And that's why I was saying, as you think about the guidance that we provided, we've seen some really good management on coal supply issues. And that's offset by some of the capital that we're deploying that will have a return. But remember when you're doing this organic type of growth that returns, there is a lag 12 to 18 months. So, there is that offset in our results. And that's why I feel very comfortable maintaining our guidance.

Keith Stanley
Analyst, Wolfe Research LLC
Q

Got it. A separate question, just wanted to ask on direct. It seems like the business is doing very well with the gas price volatility that we're seeing? Can you talk a little more to some of the key gas logistics assets and contracts you have at Direct? I guess where they're located and maybe some more examples of how you're able to optimize around the gas price volatility that we're seeing?

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

So, you mean give you the secret sauce for how we optimize our gas business, Keith. Well, let me just tell you, as I have described the business in the past, this is really a logistics business. We don't take price risk on Henry Hub. So, when we sign customers, we buy the supply. And as we are serving those customers, there is a lot of assets that come with it. And those assets can be gas storage, pipeline capacity, contracts with the LDC distribution assets. And so, this is really a basis optimization business and basis, when you're optimizing the different regional points, it's all about information. And, I mean, I already describe our commercial operations team and I have – and in the past, I have said that the gas commercial operations team that we acquired from Direct Energy is best-in-class. I have been incredibly impressed and I think the results speak for themselves.

So, without going into specific things on what pipeline capacity we have or what storage we have, all I will tell you, it is a very good business as predictable and the team is best-in-class. And I'm really excited that – of the capability that we have. And also one important aspect, it's actually complementary to our power business. So, usually when gas prices rise, people get concerned about power. Well, now we have an opportunity to monetize some of that volatility in the gas market and complement that with our power business. So, really excited about what we put together between power and gas.

Keith Stanley
Analyst, Wolfe Research LLC
Q

Thank you.

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Operator: Our final question comes from the line of Jonathan Arnold with Vertical Research. Your line is now open.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Yeah. Good morning, guys.

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

A

Hey, good morning, Jonathan.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Just a couple on the new businesses and maybe one that you exited, I think. The focus on Goal Zero today, Mauricio, is that sort of one of, the things you're doing or just how – is it the one that sort of you're most focused on or do you just kind of pull out as an example for us?

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

A

Yes. Well, I mean, so two things. Number one, it is an incredibly exciting market. The energy resilience market has grown leaps and bounds over the past couple of years. That is the result of what we are all experiencing in terms of extreme weather events, power outages. California is a perfect example. So, we have been working on this and perfecting the energy solutions for a number of years. Today, we're kind of pulling the veil of this business a little bit more, as I committed to all of you to increase disclosures during the year. The energy solutions that they have meet a customer's needs today. It is a nascent market. The growth that we're seeing is very attractive. The margins that we have are very attractive because of this nascent characteristic of this new market. And importantly, I will tell you that what I've seen the team work on the next-generation of solutions in terms of integrating different storage technologies, looking at the power electronics, so it's easier to interface with the critical circuits in your home and the digital customer interface. I am just very excited about the solutions that we're bringing to the market. But I think, right now there is a big, big niche that is not met by other distributed gen technologies, whether it is the big batteries or whether it is gas generators. So, all I will tell you is that this is a very exciting and important part of our capability and importantly it's complementary to the existing business that we have. So, we see a lot of potential on cross-selling, bundling these energy resilience to our current offerings. Now...

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Could you give us any insight, Mauricio, into how much of what you've done so far is cross sold and where it's sort of multiproduct customers or to what extent it's sort of doing its own thing?

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

A

I mean, right now, it is really the market, the product on its own has been incredibly exciting because of particularly in California. But this is an area that we're focusing on right now on the cross-sell, right. How do you create this new product and with our existing offering? So you're going to hear a whole lot more about that in the coming months and quarters. This is the focus right now of that business. And like I said, I mean, product always

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has an evolution and I think that the energy solution that we have right now is one that just fits very well with the current core offering that we give to our customers.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

And maybe if I could just squeeze in, any comment on why you decided to exit the Home Service, the warranty business, which I think was part of the sort of suite that you laid out at the Analyst Day and maybe might have come with Direct, if I remember correctly?

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

A

Yes. So Jonathan, if you remember, I said to all of you during Investor Day that we were evaluating every single one of these capabilities to provide a new experience on two big categories, Energy Services and Home Services. But I also mentioned to all of you that we didn't need to completely vertically integrate every single one of them. In some cases, we were going to partner, in some cases we were going to own the entire value chain. In the case of energy resilience and Goal Zero, we are going to own it. We are going to have it and we're moving this forward. In the case of Home Warranty of America, we decided to monetize these. And keep in mind that doesn't mean that we're not going to be on Home Services. You need to think about these in two ways. You have home protection and you have Whole Home Warranties. So, what we sold is the Whole Home Warranties. And what we're advancing is the Home Protection Services. So, I mean, my expectation is that in the future, we're going to work with our strategic partners for the Home Warranty, Whole Home Warranty business. And right now, we're testing and learning our Home Protection.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Great. Thanks a lot.

Operator: We have one more question from Michael Lapides from Goldman Sachs. Your line is now open.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Thank you for taking my question. It's a two parter, but they're obviously related and it's stuff that we thought about prior to Winter Storm Uri, but when you first announced Direct. First of all, what's your expectation or how are you thinking about the growth in mass market customer counts in Texas, meaning what you think your market growth as number of individual accounts you think you're serving kind of what are you embedding in your forecast for that and how you're thinking about customer churn?

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

A

Good. So, good morning, Michael. I'm going to ask Elizabeth to address the customer retention and customer count. Elizabeth?

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

A

Yeah, Michael, thanks for the question. So, I'll start by saying that we are very pleased with both our customer acquisition and our customer retention performance. You may recall last year was a record year for retention for

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us and that is all underneath that acquisition. So, one of the things that the DE acquisition, which was sizable and every time we do a major acquisition, you do see some transition of customers. And I am really happy with our performance and as I mentioned, it's slightly better than we expected for first quarter. And acquisition is also slightly better than first quarter. As we look out with the rising customer prices just because COGS are up, we do expect to see more market activity. And given the strength of our multi-brand, multi-product, multi-channel platforms, there is no other competitor that has the sweet spot for kind of the innovative pioneer with Reliance and NRG, the renewable pioneer with Green Mountain, the frugal or cost conscious with our Cirro and Discount platforms, and then with our DE platform, which is really allowing customers to direct where they want their energy and to create that on their own. We are positioned very well to navigate this year. We will have some transitions there with the DE attrition and the small book acquisition attrition. But I'm very pleased and you asked the question about what do we think the potential is? We absolutely expect after this transition to grow. We see Lubbock market opening up next year. In fact, that they applied to the PUC just I think sometime this week and – but all the approvals needed are done. And so, we are really excited about the platform we have and the potential for our future.

Michael Lapides Q
Analyst, Goldman Sachs & Co. LLC

Got it. And if I can one quick follow-up, another big piece when I think about your communication when you first announced the Direct deal, what is converting single fuel customers into dual fuel customers? If I'm not mistaken that's much more of an East Coast than an ERCOT or Texas item. Can you talk about how much progress you've made in doing that? Meaning of the East Coast customers you inherited, what percent, in the 15 months, 16 months that you've owned Direct, have you been able to convert into dual fuel?

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

Yeah. So, I'm not going to give you the specific percentage. But what I will tell you is we have initiatives underway both in the East and in Canada focused on doing two things. Number one selling more gas directly because we doubled – with the Direct Energy acquisition, we doubled our capabilities there. So, we have a lot more of that single fuel. So, we'll grow that way. We'll also grow in the dual fuel way where we're selling not a single product, but a second product and in some cases a bundled offer for a whole home. So, electricity and gas sold as a single offering. So, lots of activity underway. We are seeing that new customer sales significant success. Again, that's just a couple percentage points better on the new sale rates for those customers buying dual fuel where that's an option and most importantly really setting up our platform, so that we can sell not only dual fuel but other products and services as it makes sense, given the unique markets that we have.

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

And Michael, I mean, this is one of the incremental disclosures that we'll be giving you throughout the years. So, if you recall last quarter, we provided you additional hedging disclosure, this quarter we're starting to provide you disclosures around the new capabilities. So, I think what you should expect is more metrics around our efforts on how we're progressing with, this new focus on selling more than just one product.

Michael Lapides Q
Analyst, Goldman Sachs & Co. LLC

Got it. Thank you, guys. Much appreciate it.

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

A

Thank you, Michael.

Operator: I'm showing no further questions at this time. I would now like to turn the call back to Mauricio Gutierrez.

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

Well, thank you. I look forward to speaking with all of you. Thank you for your interest in NRG. This is a very exciting time for the company and a very exciting time for our industry, so look forward to continue providing with updates on our initiatives.

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

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