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NRG Energy, Inc. (NRG)

Q1 2018 Earnings Call

CORPORATE PARTICIPANTS

Kevin L. Cole

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

Mauricio Gutierrez

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

Kirkland B. Andrews

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

Chris Moser

Executive Vice President, Operations, NRG Energy, Inc.

Elizabeth R. Killinger

Executive Vice President, NRG Retail, NRG Energy, Inc.

OTHER PARTICIPANTS

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Abe C. Azar

Analyst, Deutsche Bank Securities, Inc.

Greg Gordon

Analyst, Evercore ISI

Michael Lapides

Analyst, Goldman Sachs & Co. LLC

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Steve Fleishman

Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NRG Energy, Inc. First Quarter 2018 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 follow at that time. [Operator Instructions]

I would now like to turn the call over to Kevin Cole, Head of Investor Relations. Please go ahead.

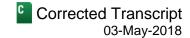
Kevin L. Cole

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

Thank you, Ayesha. Good morning, and welcome to NRG Energy's first quarter 2018 earnings call. This morning's call will be 45 minutes in length and is being broadcast live over the phone via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

As this is the earnings call for NRG Energy, any statement made on this call that may pertain to NRG Yield will be provided from NRG's perspectives. Please note that today's discussion may contain forward-looking statements, which are based on assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation as well as the Risk Factors in our SEC filings.

We undertake no obligation to update these statements as a result of future events, except as required by law. In addition, we will refer to both GAAP and non-GAAP financial measures. For information regarding our non-GAAP



financial measures and reconciliations to the most directly comparable GAAP measures, please refer to today's presentation.

And now, with that, I'll turn the call over to Mauricio Gutierrez, NRG's President and CEO.

Mauricio Gutierrez

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

Thank you, Kevin, and good morning, everyone. Joining me this morning is Kirk Andrews, our Chief Financial Officer. Also on the call and available for questions, we have Elizabeth Killinger, Head of Retail Mass Business; and Chris Moser, Head of Operations.

Before we begin today, I want to take a moment to thank those who participated in our Analyst Day just about a month ago. It was a pleasure to share our story and value proposition with so many of you. It is an exciting time for our company, and I am confident that our path forward will create value for all of our stakeholders.

So now turning to slide 3, I'd like to start by highlighting the three key messages for today's presentation. First, we are reporting strong financial results for the first quarter, up 43% from last year, while continuing to make good progress on our Transformation Plan objectives. Second, our integrated platform is well positioned for upside in our markets today and well into the future. This includes our position going into the summer in ERCOT. And, third, as we committed to you, we held an Analyst Day in March where we outlined our long-term strategic vision and plan and the significant excess cash we will be able to generate in the coming years.

Moving to slide 4, let me review the financial and operational results for the quarter. We have again achieved top decile safety performance. I want to thank my colleagues for keeping safety a top priority, particularly as we continue to execute on asset sales and cost savings. We are reporting first quarter adjusted EBITDA of \$549 million and maintaining our full-year guidance of \$2.8 billion to \$3 billion. Our first quarter result is 43% higher than it was last year, primarily driven by cost savings and higher prices due to cold weather in Texas and the Northeast.

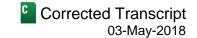
Also during the quarter, we continued to execute on all parts of our Transformation Plan. We remain on track to achieve our EBITDA-accretive targets of \$590 million in cost savings and \$215 million in margin enhancements. Regulatory approvals for our announced asset sales are progressing well, and we expect to close these transactions in the second half of 2018.

Additionally, our XOOM Energy acquisition is expected to close during the second quarter of this year. Our share buyback program is also underway. Through the end of the first quarter, we executed \$93 million of share repurchases towards our \$1 billion program.

On the next two slides, I want to review some of the highlights from our Analyst Day, starting with the steps we're taking to strengthen our business on slide 5. Our focus is on building a business that can create value today and into the future. We achieve this by being well-positioned in attractive markets and by providing stable and predictable earnings. Given market trends, the winning platform is increasingly customer driven.

This is not just an attractive but an actionable opportunity for NRG. Our core competencies have always been generating electricity and selling it to retail customers. We have unique advantages in this space and can leverage our existing strength to redefine our business and focus on meeting customer demands.

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Our evolution has led us to right-size our generation fleet, as shown on the left side of the slide. We are now much better balanced between expected economic generation and retail load. But importantly, we maintain additional capacity, and while today it is not economic at current prices, it can serve as a backstop to our retail business during periods of high prices. Now by becoming better balanced, we increased the predictability of our earnings, while still maintaining attractive market opportunities. We have a scalable retail business with stable margins that will now represent about 60% of our EBITDA and a generation business that is well positioned for a market recovery.

Moreover, the low capital intensity of our retail business combined with efficiencies in maintenance CapEx across the fleet enables us to convert almost \$0.70 of every dollar of EBITDA to cash flow. The right side of the page is an illustration of our platform, stability and off-site. As you can see, our retail earnings are fairly stable whether prices go up or down, especially when you're out. Our generation business is more directly correlated to power prices and margins increase with rising power prices and decrease with falling prices. But they don't go all the way to zero because our generation is needed today. We will be compensated either through market prices or reliability payments.

So when you combine these two businesses you get the pink line on the chart, an integrated platform with little margin downside and asymmetric upside. And this profile only improves as the portfolio becomes better balanced.

Now turning to slide 6 with an overview of the financial priorities discussed at our Analyst Day. Starting on the left side with the details of our \$215 million margin enhancement program; we remain on track to achieve our target and 2018 is critical in setting the foundation to achieve more significant increases in 2019 and 2020.

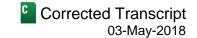
The lion's share of our targets comes from our retail mass business through two types of initiatives, value expansion and customer growth. Value expansion includes things like improving our platform, increasing retention and adding products to our current offering. Customer growth focuses on our sales channels and the digital experience. Now to support these and all of our margin enhancement efforts, we're investing \$75 million of cost to achieve in our business.

On the right, we highlight our capital plan, which, first and foremost, supports running our business at the highest level of safety and operational performance. After these, we are focused on executing our plan to create \$8 billion of excess cash by 2022, the result of our predictable earnings, Transformation Plan impacts, and some modest growth in our retail business.

As we look to allocate this cash, our decision making will follow our stated capital allocation principles. Because we are on track to achieve 3 times net debt to adjusted EBITDA by the end of this year, we have started to turn our attention to reinvesting in the business at/or above our target hurdle rate and returning capital to our shareholders. These efforts have already started with the acquisition of XOOM and the announcement of our \$1 billion share buyback.

So, before I leave our Analyst Day discussion, I want to summarize this conversation by putting in perspective just how much cash our strengthened platform can generate. For purely illustrative purposes, if we were to put our excess cash through 2022 into reinvestment at our target hurdle rate, it would more than double our free cash flow before growth from \$1 billion today to \$2.6 billion in 2022. Now, if we were to put our \$8 billion of excess cash into share buybacks, we would be buying back 80% of our market cap today. I don't believe there are many businesses with this sort of financial flexibility, and we are fully committed to being excellent stewards of your capital as we continue to evolve and execute our plan.

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Now, moving to our markets, I'm starting with ERCOT on slide 7. Over the past few years, we highlighted the significant risk of retirements and the slowdown in new build, given persistent low power prices. Last year, we finally saw the retirement of about 4,200 megawatts of uneconomic coal generation, which tightened reserve margins. As a result, we are entering this summer with the lowest reserve margin on record at around 10%. Prices have responded accordingly with summer on-peak prices currently trading at about \$150 per megawatt hour.

Moving to the right side of the slide, our generation portfolio in ERCOT is well-positioned and leaning long for the balance of 2018, with only 74% of expected generation hedged. On the retail side, we are a little over 100% hedged against our contracted or priced-load for the balance of 2018. For this summer specifically, I feel very good about our position and the steps that we have taken to ensure our business is well-positioned for high prices.

So, first, let's talk about our generation fleet. We are leaning long going into the summer. We have worked hard this spring outage season to ensure our units can withstand increased run times, given the expectation of high prices. And we have purchased outage insurance to mitigate the impact of unplanned outages.

Second, our retail business, and as a matter of policy, is fully hedged against our priced-retail load. This is made up of not only internal hedges where we cross generation and retail, but also by market purchases. And as we have done in the past, we have purchased out of the money options to manage against high loads and high price conditions.

Finally, we are working proactively to educate our customers and provide them with options and tools to manage their energy bills. I am very comfortable with the steps we have taken to strengthen and position our integrated business to benefit from upside this summer should prices materialize.

So now turning to the east on slide 8; the PJM capacity auction for planning year 2021-2022 will be held later this month, and I wanted to briefly provide a few observations. Last auction saw a slowdown in new bills and over 7 gigawatts of announced retirements added to the PJM deactivation list this year. But there is still uncertainty on how these will play out in terms of market tightening. As you are aware, some generators are seeking compensation for plants that are not needed for reliability and not economically viable.

While some entities are grasping a bailout in the short run, we see capacity rationalization as a necessary first step towards a healthy market. And we are confident that there will be continued support for the competitive market value proposition. Beyond PJM, our risk portfolio is well positioned given our fuel diversity and location near low pockets.

We remain optimistic about the continued calls to action for pricing reform across markets, and we will continue our work with regulators and stakeholders to maintain the integrity and well-functioning of competitive markets.

With that I will turn it over to Kirk for our financial summary.

Kirkland B. Andrews

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

Thank you, Mauricio. Turning to the financial summary you'll find on slide 10, first quarter consolidated adjusted EBITDA was \$549 million, which is a \$164 million improvement over the first quarter of last year. Generation renewables delivered \$172 million in adjusted EBITDA during the quarter. Our retail and yield contributed \$188 million and \$189 million respectively.



Our strong first quarter results were driven primarily by higher power prices and retail load in Texas. Those results were further enhanced by the impact of cost reductions across the organization, as we continue our progress on the Transformation Plan. Although first quarter results were strong and summer prices in ERCOT remain robust, given we're still only a few months into 2018 with the summer still ahead of us, we're maintaining our 2018 guidance ranges of \$2.8 billion to \$3 billion in EBITDA and \$1.55 billion to \$1.75 billion in free cash flow.

During the first quarter, NRG successfully re-priced our \$1.9 billion term loan, reducing the LIBOR spread by 50 basis points to \$175 million over, which will generate annual cash savings of approximately \$9 million. Additionally, as I mentioned at Analyst Day, we've also entered into an agreement with a third party to sell our Canal 3 project, a transaction which will enhance 2018 capital available for allocation by approximately \$130 million. And shortly after Analyst Day, we also completed the sale of Buckthorn Solar to NRG Yield, closing the first of several Transformation Plan asset sales we had announced in early February. And finally, we made good progress in the quarter on our share repurchase program, which was launched in early March following our earnings call and the subsequent announcement of changes to our board of directors.

Through the first quarter, we exsiccated approximately \$93 million of the \$500 million share repurchase program at an average price of \$29.75.

We continue to actively repurchase shares in the market, and we'll provide an update on our progress on our second quarter call. We will also update intended timing for the second \$500 million installment of share repurchases once we have closed a more substantial portion of the asset sales we had announced last February.

Turning to slide 11, our expected 2018 NRG-level capital allocation is unchanged from the update we provided at Analyst Day. As a brief reminder, our 2018 remaining capital available taking into account both midpoint free cash flow and asset sale proceeds to net of previously-announced commitments including share repurchases, that remaining balance still stands at \$668 million. And as I highlighted at Analyst Day, this amount is \$55 million higher than our fourth quarter update as the pending sale of Canal 3 as well as the reduction in our cash reserve to ensure we hit our credit ratio target more than offset the \$210 million we allocated towards the purchase of XOOM.

Finally, on slide 12, taking into account the pro forma EBITDA impact of the XOOM acquisition and including both our minimum cash of \$500 million as well as the revised 2018 debt reserve of \$1.065 billion, we remain on track to achieve our target 3 times net debt-to-EBITDA ratio by the end of 2018.

Turning to a pro forma 2020 view of our ratios based on midpoint 2018 guidance and including the incremental contribution of \$275 million in EBITDA from Transformation Plan savings and margin enhancements beyond 2018, we are also on track to maintain that target ratio through 2020. The combination of both the \$275 million in additional Transformation Plan EBITDA and the elimination of adjustments for Midwest Generation, which are associated currently with the capacity monetization transaction, allows us to maintain that target ratio in 2020 without the need for additional cash reserve to do so.

Beyond 2018, we expect that \$1.065 billion in temporary cash reserve to be completely released. With that cash in turn being available for reinvestment or additional capital return to our shareholders. In the lower right of the slide, our pro forma 2020 excess cash including that release of the reserve and the ongoing robust free cash flow is over \$4.3 billion.

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

Mauricio Gutierrez

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

Thank you, Kirk. Now, turning to slide 14, I want to provide you with a few closing thoughts on our 2018 priorities and expectations. We remain focused on delivering on our Transformation Plan objectives. We are making good progress on completing our announced asset sales, and I look forward to providing you with updates relating to these transactions as we move into the second half of the year. We also continue to move closer to the final resolution of GenOn, which is expected to emerge from bankruptcy in 2018.

And finally, our Analyst Day provided a longer-term strategic discussion of our business. Our path forward will generate significant excess cash by leveraging our strengths, capitalizing on market trends and making execution of our Transformation Plan our number one priority.

So with that, I want to thank you for your time and interest in NRG. Ayesha, we're now ready to open the line for questions.

QUESTION AND ANSWER SECTION

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

Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	C
Hey, congratulations.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	Д
Thank you, Julien. Good morning.	
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	C

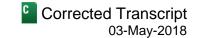
Good morning. So, perhaps just to kick it off, let's focus on ERCOT, seeing that where on the press this is summer here. Can you give us a little bit more commentary on how you think about your sensitivity? I know you released some kind of generic ones in the appendix here, but can you talk a little bit more about how you think about the potential upside in the 2018? You haven't updated that for a little bit here. You also cautioned that you're purchasing insurance and other things. I mean, should we think about the sensitivities here for 2018 as being fairly linear or is there sort of a capping out with collars and things like that?

And then maybe a second question, at the same time, I'll throw it to you is, can you talk about the backwardation in the curve in 2019 and 2020 and just what you're seeing out there in terms of trends of new supply? Clearly, in recent weeks, we've seen some unmothballing of assets and things like that, so to be curious for an update.

Mauricio Gutierrez

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

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Sure. Well, let me tackle the first one and then I'll turn it over to Chris. So, there's a few things that we did this time around on the earnings slides. The first is we provided you a position report specifically for Texas, which in the past we haven't done and we wanted to do that. So, people would at least have a view in terms of for balance of the year how we're positioned. Obviously, for competitive reasons, we cannot provide a breakdown month-bymonth.

Now, what we – like I said in the call, I mean, I feel very comfortable because we're actually going into the summer long. I'm not going to tell you how much, but we are. And we have complemented that with other things like additional insurance for any operational risk that we have. As a matter of fact, we have done that before. It has worked out very well for us and we just continue to do that going forward.

The second thing is we provided also the sensitivities on the appendix and a change in terms of prices from where we set the guidance and where the market is today. I think if you use the sensitivities and our open position, you will get very close to where we actually at least expected prices will be paid. Obviously, we have to see how the summer plays out. Hopefully, with these two additional elements, you can at least have an idea of where, I would say, on a mark-to-market we would look like. But obviously, we have to wait for how things develop in Texas.

Now, to your second question about the backwardation on the curve, Chris?

Chris Moser

Executive Vice President, Operations, NRG Energy, Inc.

Yeah. It's obviously backwardated with \$150 for this summer and then a \$125-ish for 2019. Quite frankly, I still think 2019 has room to come up and we're pretty well set up for that with plenty of open space out in 2019 still. When the final CERA came out a couple of days ago, it did show things were 500 megawatts better than we thought, to your point mostly because of a couple of units that came back, Barney Davis was one. That was around 300 megawatts. Gibbons Creek I think was always in the numbers or at least was no surprise to the market that one was expected to come back. So, there was a little bit of move there for this summer.

Interestingly though, if you go look at 2019, the reserve margin actually went down some. It was 11.7% I think in the last CERA and this CDR came out at about 11%. What they did there was they actually reduced load by 500 megawatts, and then actually reduced generation by 1,000 megawatts. So it's kind of going the wrong direction for them in 2019 with some of these assets [indiscernible] (25:51), for instance, actually pushing back three years from 2019 to 2022, I think, was the was the most recent number there.

So, we have to see how that works. I mean, obviously, part of the issue with the backwardation is going to impact that new build situation. I mean, we don't think at this point that it's high enough or long enough to incent new build, and we're hoping that the irrational new build is a thing of the past.

Mauricio Gutierrez

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

Yes. And I think just if you look at our position for 2019 and 2020, we're pretty open.

Chris Moser

Executive Vice President, Operations, NRG Energy, Inc.

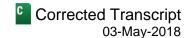
Very open.

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Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch



Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. And we expect that backwardation will correct itself. Obviously, everybody is waiting to see how this summer plays out. But fundamentally, we believe 2019 and 2020 to have a lot more room, and we're well positioned for that.

Excellent. And then just a quick little detail here on the structure of the buyback program. Just curious, the amount purchased of late just versus the target, you're still firmly committed to executing against the full number by the

end of the year?	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	Α
Yes, Julien. I mean, my expectation is that we will be executing the \$1 billion by end of 2018	3.
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	C
Excellent. All right. Thank you.	
Operator: Our next question is from Abe Azar with Deutsche Bank. Your line is now open.	

Abe C. Azar

Analyst, Deutsche Bank Securities, Inc. Good morning. Congratulations on a good quarter.

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

Abe C. Azar

Shifting to the cost cuts, is the \$80 million that you did in Q1, is that all recurring? So will that just translate to \$320 million by the end of the year? And then just a follow-up to that is where do you expect the balance of the

cost cuts to come from?

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

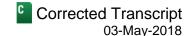
Yeah. So, the first – yeah, the \$80 million is recurring. I think you were extrapolating that and multiplying by four. I think that's incorrect. I mean, we're going to see a ramp-up on cost savings as we go into the second and third quarter particularly, as you know, we have more clarity and visibility on the asset sales processes, and we continue to streamline the organization. So, I think what you should expect is a ramp-up as we go into Q2, Q3 and the end of the year, I mean. So, that's what I would caution you not to extrapolate the \$80 million as you did.

And then what was your last question?

Thank you, Abe. Good morning.

Analyst, Deutsche Bank Securities, Inc.

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Abe C. Azar Analyst, Deutsche Bank Securities, Inc.	Q
That was the – you answered both of them with that. Thank you.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Okay, great.	
Operator: Our next question is from Steve Fleishman with Wolfe Resis on mute, please unmute it. Our next question is from Greg Gordon w	· · · · · · · · · · · · · · · · · · ·
Greg Gordon Analyst, Evercore ISI	Q
Thanks. Good morning.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Good morning, Greg.	
Greg Gordon Analyst, Evercore ISI	Q
A couple of my key questions were answered. The first one is – that hat performance of the retail segment in the quarter. It looks like you guys EBITDA, but in terms of adding customer counts, but you're not necess margin enhancement initiatives, right? That's coming from just underlyil little bit more about what you're seeing there?	did phenomenally well in terms of not just arily counting that towards your sort of
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Mauricio Gutierrez

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

Yes. So, let me start and then I'll turn it over to Elizabeth. I mean, first, I think the result of Q1 is it was driven by the cost savings. I mean, you're starting to see the benefit of our cost savings initiative. Number two, if you'll remember, we had a very cold January, loads were pretty healthy in Texas and the Northeast. And so that basically drove two things; higher usage and in combination with cost savings, we were able to put these numbers for retail.

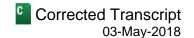
Now, Elizabeth, I don't know if you have any additional comments or color in terms of the customer.

Elizabeth R. Killinger

Executive Vice President, NRG Retail, NRG Energy, Inc.

Yeah, sure. Thank you, Mauricio, and thank you for the question. What I would say is the results for the first quarter versus first quarter last year, Mauricio touched on, they're split pretty evenly between lower operating cost, increased margin, and weather. And if you look at that and you think about, well, why is that not showing up in the margin enhancement for the program, it's because those numbers are net of operating expenses.

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So, we're making those investments. We are seeing increases in gross margin from some of the activities, but we're counting Transformation results on a net basis, not a gross basis. So, you'll continue to see that. And you're right on it being a large portion of the underlying engine that's creating that. And year-over-year, we have just over 45,000 customer count increase versus first quarter last year and also a couple of thousand in customer count growth just between year-end and now.

Greg Gordon

Analyst, Evercore ISI

Great. Kirk, any chance you can give us an insight into how many shares you've repurchased since the books closed on the guarter?

Kirkland B. Andrews

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

Greg, all I will tell you is that we're continuing to execute on buyback since the quarter end, and we're pleased with the progress, moving along nicely. That's all the level of detail that I'm going to share at this stage, but we'll certainly update when we get to the second quarter call.

Greg Gordon

Analyst, Evercore ISI

Okay. Thank you. Last question, you indicated in the release that part of the first quarter revenue result in the generation business was sale of NOx credits. Can you just tell us how much that was and whether we should consider that sort of a one-off or whether that's something that could be more built into a periodic ability to make ongoing sales?

Kirkland B. Andrews

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

Sure. Directionally, what I'd tell you is I think you probably find this in the details in our press release around the Gulf Coast region. I think we had a \$57 million quarter-over-quarter increase and I'd think about that as being roughly 60%/40% NOx credits versus prices.

Mauricio Gutierrez

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

Yeah, we had...

Greg Gordon

Analyst, Evercore ISI

Sorry. Go ahead.

Mauricio Gutierrez

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

No. I was just going to say that we've got a decent bank of those and while we don't have a staged programmatic program to roll those out. When we when we see good numbers, we may move some from here and there.

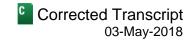
Greg Gordon

Analyst, Evercore ISI

Great. Thanks, guys.



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Mauricio Gutierrez

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

Thank you.

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

Michael Lapides

Analyst, Goldman Sachs & Co. LLC

Hey, guys. Thanks for taking my question. Mauricio, a question on Texas, there's the old adage that the best cure for high prices are high prices. Just curious what your level of concern is regarding the price moves incentivizing new forms of generation and that doesn't necessarily have to be peaking or combined cycle gas. It could be significantly more than expected amounts of utility scale solar end of the market.

Mauricio Gutierrez

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

Okay. So, Michael, I mean, your question is the, what kind of pricing we need to see to incentivize new capital going into the market. I'm just trying to understand what...

Michael Lapides

Analyst, Goldman Sachs & Co. LLC

Yeah. I'm trying to get your view on whether you see an increase or a ramp in activity related to either new gasfired generation coming back into Texas or significantly more amounts of utility scale solar coming to supply that high peak price?

Mauricio Gutierrez

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

Okay, got it. Well, I mean, the first thing is we need to see not only high prices to incentivize new capital going into the market but also, not only high prices but long enough so people feel comfortable making 20 year, 25 year investment decisions. So far, what we have seen is only the expectation on one summer of high prices and we just talked about the backwardation that exists in the curve in 2019. So what we need to see in an energy-only market, price is everything. It provides the right signal and incentive for developers and companies to start putting capital to work in that market.

So, you need to see two things, you need to see them high enough and you need to see them long enough to attract this capital investment. Now, we are not seeing actually the contrary and we've been talking about it, the slowdown on new generation is very real and you can still see it in the latest CDR or CERA report that Texas put out. And I think Chris already mentioned some of these units are being pushed out one or two years.

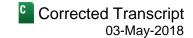
With respect to other technologies, I don't see that really taking off only with one year of high prices. I mean, they basically follow the same behavior as any combined cycle. I don't see Texas putting a program of out-of-market payments to see whether it's battery storage or other technologies like that. I mean, Texas has been very clear and ERCOT has been very clear in competitive market signals in energy-only market. And we just need to make sure that we just let it work.

Michael Lapides

Analyst, Goldman Sachs & Co. LLC

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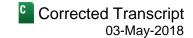


Got it. One quick follow-up. Does your analytical team believe outside of the retirements in PJM that have been announced already? There is another significant wave of retirements coming assuming no incremental subsidies versus what's already been announced.

Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Chris?	
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	A
Hey, Michael. This is Chris. If I remember right, I think that the amount of boarded on 18,000. So, I think just doing the quick math I think that leans some other units out there that are teetering on the brink.	_
Michael Lapides Analyst, Goldman Sachs & Co. LLC	Q
Got it. Thank you, guys. Much appreciated.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thank you, Michael.	
Operator: Our next question is from Ali Agha with SunTrust. Your line is	s now open.
Ali Agha Analyst, SunTrust Robinson Humphrey, Inc.	Q
Thank you. Good morning.	- 4
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Good morning, Ali.	
Ali Agha Analyst, SunTrust Robinson Humphrey, Inc.	Q
Mauricio, in your comments, you had talked about the various puts and to upcoming PJM capacity auction, ComEd and EMAAC specifically. At least bidding behavior obviously is impossible to map out from the outside, but because of the retirements that we should see some better pricing perhapsear?	st when you put it all together, and I know generally speaking, your expectation
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A

Well, I mean, I'm not going to speculate specifically on the pricing on the next capacity auction versus the 2021. What I will tell you and I think what we tried to put here are some of the big market drivers. Obviously, the retirements and the additional – I think we said a little over 7 gigawatts, close to 7.5 gigawatts have been added to

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the deactivation list. But obviously, that is uncertain because of all these out-of-market conversations that are happening today. Now, I am encouraged by seeing FERC and the different ISOs to take a very specific stance in terms of the protection of competitive markets and making sure that they don't negatively impact those markets.

Now, I don't know what's going to happen in the next auction in terms of the slowdown in new builds. All we're saying is that in the last auction, we saw almost half of the new builds that we have seen in the last three years. And if that continues well, you can see that as a perhaps as a positive catalyst along with the retirements if they happen.

On the other hand, you see obviously we just talked about state subsidies, zonal transfer and the stagnant load. So, I think you have pluses and minuses, it's very difficult, and I think at this point quite uncertain to determine the direction of where this can go. It's going to depend on the outcome of some of these out-of-market, I guess, out-of-market discussions that are happening now.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

I see. Second question, and as you laid out right now on the buyback front excluding the first \$500 million. And if I heard you right, the second \$500 million gets firmed up once the asset sale process starts to close as well. But in the first \$500 million, just curious, is that driven the liquidity as you're seeing it? Is it driven by the way you see the price which you think is being undervalued? Just curious how the thought process is in this current buyback program.

Kirkland B. Andrews

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

Yeah. This is Kirk. I mean obviously on the second part of that question, certainly it's driven by what we see as an attractive price in the market. But certainly, the other half of that, your instinct is correct. We want to strike a good balance between taking advantage of that attractive price and also managing our existing liquidity, which is certainly significantly enhanced as we move forward to making good on closing those asset sales. But as you know in following the company, the early part of the year, that is our more acute liquidity need. So, this allows us to strike that balance and still have good robust access to the market to take advantage of that stock price.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

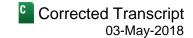
Okay. And last question. As you ramp up the margin enhancement program on the retail side, is there any concern that as part of that? I mean, the stickiness of customers and your competitors obviously watching your moves, is there any concern about customer churn as this program starts to get more active going forward?

Mauricio Gutierrez

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

Yes. Well, I mean, I think the margin enhancement, as I've said, this is not about just increasing prices. I mean, we went through a very detailed conversation during Analyst Day on how we're enhancing our platform both in terms of sales channels, products, and digital experience, and the technology platform that we have. So, I think what you need to think about the margin enhancement is not increasing prices. I mean, it is a lot more, and it's investing significant capital on it. I mean, we are devoting close to \$75 million in supporting that margin enhancement.

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So, I don't expect – I don't think you should – our concern is not about increasing churn. And with respect to our competitors watching closely, we said, I mean, we're going to provide you a general view in terms of where we are going to make these investments and where we're getting the margin enhancement. But we're not going to provide what we think is competitively sensitive information or, as I said on the Analyst Day, the secret sauce of how we're going to get it. But, Elizabeth, is there anything else that you want to add on it?

Elizabeth R. Killinger

Executive Vice President, NRG Retail, NRG Energy, Inc.

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The only thing I would add is our strategy is to balance EBITDA and customer count. It's not to just maximize margins, as Mauricio said, and so one of the initiatives within our program is actually to improve retention performance and ensure that customers are accepting the offers that we give them. So, there is quite a bit of work going on, and we feel like our position with competitors actually through the margin enhancement program will get even stronger than it is now.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Understood. Thank you.

Operator: Our final question comes from the line of Steve Fleishman with Wolfe Research. Your line is now open.

Steve Fleishman

Analyst, Wolfe Research LLC

Can you hear me?

Mauricio Gutierrez

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

Yes. Good morning, Steve.

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Mauricio Gutierrez

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

Now, we finally can hear you.

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Steve Fleishman

Analyst, Wolfe Research LLC

Okay. All right. That was actually I just want to test that my phone is working. All set. Thank you. No. Okay. So, just on the – could you maybe just give a comment on how the asset sale program is progressing in terms of approvals and just have any issues come up? And I know you had a lot of leg work to do, particularly on the consents and such for NRG Yield. So just is your conviction higher today than where it was then when you

announced that you'll get this done?

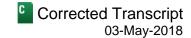
Mauricio Gutierrez



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

Yeah, no. So, Steve, the approval process or processes are going very well. We're making a good progress. We have actually received now HSR approval for yield, renewables and [ph] ligand (43:22). And I mean in terms of yield, we have now received the majority consent on all of our contracts. So, we're making really good progress. I

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mean, if things continue like they are, my expectation is that we could potentially close on yield and renewables by September, early October. So, I know that we've been saying second half of the year, but I think if the progress that we're making today continues, I think there is an expectation that by September, October, we can we can close these transactions.

Steve Fleishman

Analyst, Wolfe Research LLC

Okay, great. Thank you.

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Mauricio Gutierrez

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

Thank you, Steve. Well, with that, I want to thank you all for your interest in NRG and I look forward to continue our conversations in the weeks and months to come. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. You may now disconnect. Everyone have a great day.

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