05-Nov-2020

NRG Energy, Inc. (NRG)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. And welcome to the NRG Energy Inc.'s Third Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session [Operator Instructions] Please be advised, that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to Mr. Kevin Cole, the Head of Investor Relations. Thank you. Please go ahead, sir.

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

Thank you, Felicia. Good morning, and welcome to NRG Energy's third quarter 2020 earnings call. This morning's call is scheduled for 45 minutes in length and is being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

Please note that today's discussion may contain forward-looking statements, which are based on assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation as well as the risk factors in our SEC filings. We undertake no obligation to update these statements as a result of future events except as required by law. In addition, we will refer to both GAAP and non-GAAP financial measures. For information regarding our non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures, please refer to today's presentation.

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

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

Thank you, Kevin. Good morning, everyone, and thank you for your interest in NRG. I'm joined this morning by Kirk Andrews, our Chief Financial Officer. Also on the call and available for questions, we have Elizabeth Killinger, Head of Retail Mass; and Chris Moser, Head of Operations.

I'd like to start on slide 2 by highlighting the three key messages for today's presentation. Our integrated platform performed well during the summer, delivering stable results despite challenging conditions presented by COVID-19. We're narrowing our 2020 guidance around the midpoint and maintaining our 2021 adjusted EBITDA guidance. The Direct Energy transaction remains on track to close by year-end and today we're providing an update on our financing plan that no longer requires new equity for the transaction. And we continue to advance our strategy to perfect our business model by optimizing our platform to better serve our customers.

Moving to our third quarter financial and operational results on slide 3. Beginning on the left-hand side of this slide, we once again delivered top decile safety performance. I want to take a moment to thank our employees, especially those who are on the frontlines, reporting to power plants and dispatch centers for continuing to prioritize safety and for keeping the lights on for our customers throughout this pandemic.

During the quarter, we made good progress on our strategic priorities. The Direct Energy acquisition, which directly advances our strategy of moving closer to the customer is on track to close by year-end. We remain focused on perfecting our platform through portfolio optimization, which I will discuss later in the presentation. And we continue to refresh our board of directors with five new independent directors added over the last three years, making two-thirds of our board now gender or ethnically diverse.

We also continue to adhere to our capital allocation principles, which will be highlighted throughout the presentation. Most notably is the updated financing plan for the Direct Energy acquisition and our commitment to investment-grade credit metrics.

Moving to the right-hand side of the slide, we deliver $752 million of adjusted EBITDA in the third quarter, bringing our year-to-date results to $1.674 billion, a 5% increase from the same period last year.

Drivers for our third quarter results include the impact from milder weather in Texas and COVID-19, offset by lower supply costs. Our strong year-to-date results allow us to narrow our 2020 adjusted EBITDA guidance to the midpoint of the range, fully offsetting the previously expected COVID-19 impacts.

For 2021, we are maintaining our adjusted EBITDA guidance range, while updating our forecast to reflect more conservative expectations of COVID-19. At the moment, this puts us below the midpoint of our guidance but we are focused on mitigating the impact of COVID-19 on sales channels, primarily in the East, and delays on the solar PPAs previously expected for summer 2021. Kirk will address adjusted EBITDA and free cash flow guidance in detail in his section.

Turning to slide 4. I want to provide an update on the impact of COVID-19. At NRG, our top priority through this public health crisis has been the health and safety of our employees and customers. Beginning with employees, we activated our crisis management team one day after the first US confirmed case in January. We seamlessly transitioned over 90% of our office workforce to remote work, all while maintaining full operational status. For our customers, we have proactively expanded payment options to aid those negatively impacted by the pandemic.

As we look forward, we recognize the need to rethink our work environment in a more permanent way to leverage technology and better meet the needs of an increasing hybrid society. This is why during the second quarter, we formed the task force called Workplace 2021, with the goal of redesigning our office workspace to create an optimal long-term work environment through and post-COVID-19.

On the right-hand side of the slide, we have estimated the year-on-year weather normalized changes in load across ISO's. As you can see, electric demand continues to be impacted across the country but it's gradually recovering in all markets as states have entered various phases of reopening. ERCOT continues to display the most resilience down just 1%.

Within ERCOT, we continue to see significant variances in electric demand by customer type. Residential customers are still positive compared to normal. While commercial and industrial users remain negative. But all of them are showing signs of returning to normal levels.

For NRG, I want to remind everyone that the largest part of our portfolio in ERCOT is residential, which thus far has remained relatively resilient. As we have discussed, COVID-19 will continue to have an impact on customer demand, how we retain and grow customers and the timeline for executing our renewable PPA strategy.

As the pandemic persists, we're seeing new short-term challenges and longer-term opportunities. First, on the electric and natural gas demand side, we continue to expect increased demand from residential customers giving stay-at-home orders. This is clearly a net positive for us. Next, on how we retain and grow customers, we expect to be a relative winner giving our best-in-class, multi-channel platform. In ERCOT, we're seeing lower attrition rates, which helped stabilize customer count, but we're also seeing fewer customers looking to move away from competitors. We continue to redirect and refine marketing dollars. But for planning, we're assuming stable customer count in ERCOT. We could see incremental growth opportunities.

In the East, we're also realizing lower attrition but giving less favorable regulatory framework, face-to-face is an important tool in creating awareness to win customers. While our non-face-to-face channels are becoming increasingly effective, we believe our customer count will more closely track the overall economic reopening.

For planning, we're assuming a contraction in customer count. And as a second wave of potential shutdowns loom, we remain diligent in mitigating the impacts if it were to occur. COVID-19 continues to impact the timeline of signed PPAs to achieve commercial operations. We now expect our pre-summer 2021 solar PPAs to be delayed. This delay creates a headwind versus our midpoint of guidance because our [ph] low obligations will be met with more expensive (00:09:22) market purchases. But they are valued neutral given that we negotiated lower prices to accommodate for these delays.

To be clear, it is important to differentiate between the short-term impact of economic shutdowns and a socially distanced economy versus what I believe is the stickiness of stay-at-home trends.

As I've stated before, I believe the former to be a near-term challenge that we will manage through and the latter to be a medium- to long-term opportunity for competitive retail.

Now, let's move to slide 5 for a closer look at this past summer in ERCOT. On the top-left chart, we show the cooling degree days by month. The conditions through summer were mixed with July and August slightly above normal but with limited extreme heat events and September, well below normal due to an active hurricane season. This resulted in lower system-wide demand.

Now moving to the bottom-left of the slide, you can see the impact on power prices year-over-year from lower demand and COVID-19, coupled with strong power plant performance. Our portfolio was fully hedged against [ph] price loss (00:10:44) but on the margin, we were able to modestly lower our supply costs through opportunistic market purchases. Overall, the business performed well this summer.

Our retail business mix continues to provide stability with stay-at-home trends, offsetting milder weather and impacts from COVID-19 on small and large C&I customers. We have now demonstrated the strength of our business over the past three summers under very different market conditions. 2018, saw volatile forwards with real – with low real-time pricing. 2019, saw low forwards with high real-time pricing. And 2020, saw recessionary factors, including both low real-time pricing and customers in financial distress. This summer is just one more example of what underpins our confidence in the stability and predictability of our business model.

Moving to slide 6 for an update on our ongoing efforts in perfecting our platform and the Direct Energy acquisition. As you know, over the last four years we have been evolving our platform to be closer to the customer. During this time, we simplified and streamlined our portfolio, achieved a strong balance sheet, established a transparent and compelling capital allocation framework, and made sustainability an integral part of our foundation.

While our stock price does not yet reflect the full measure of our success, we continue to strengthen and streamline our portfolio. We have significantly rebalanced our portfolio by reducing generation and growing retail. But we're not done yet.

To that effect, we expect to realize a minimum of $250 million in net equity proceeds, net of debt repayment associated with assets sold over the next 6 to 12 months. While we will not be providing details of the specific assets or businesses that we're targeting, [ph] you should have set a (00:12:56) comprehensive update as outcomes are reached. The first $200 million in proceeds will be used to fund Direct Energy with excess capital to be available for general capital allocation.

Now moving to the right side of the slide. The Direct Energy acquisition remains on track to close by year-end. We received approval from Centrica shareholders, Canadian Competition Act and HSR. We're now awaiting approval from FERC, which is expected by year-end.

As I mentioned in my remarks, we are achieving our equity needs through increased cash on hand and asset sale proceeds. This eliminates our need to go to market for new equity through the previously planned $750 million perpetual preferred equity-linked security. We believe these benefits both debt and equity investors given it maintains a simplified capital structure as the preferred equity was a hybrid 50% equity and 50% debt instrument. Kirk will provide additional details on the financing plan.

Importantly, our updated financing plan maintains our path to achieve investment-grade metrics. Lastly, on integration, we are excited to close the acquisition and welcome Direct Energy employees into the NRG family. The integration process is well underway as our experience as a cross-functional integration team is focused on Day 1 activities and preparing for system some process synergies. We look forward to bringing NRG's strength in [ph] rich management and customer experience with direct to standard platform of (00:14:49) products and services to create value for customers and shareholders.

With that, I will pass it over to Kirk for the financial review.

Kirkland B. Andrews

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

Thanks, Mauricio. Turning to slide 8 for a review of the third quarter results and 2020 guidance update. Year-to-date NRG delivered $1.674 billion in adjusted EBITDA and $1.2 billion in free cash flow before growth. Year-to-date adjusted EBITDA from our Texas segment was $1.087 billion, which was about $2 million higher from 2019. As we realized the contribution from the Stream acquisition, which closed in the second half of 2019 and benefited from lower supply costs, which helped offset the year-to-date impact of COVID-19 from lower fees and lower C&I sales.

Outside Texas, year-to-date adjusted EBITDA increased by $79 million due to improved availability from our Sunrise plant in the West, as it was in forced outage for a large part of 2019, increased resource adequacy payments; as well as outage insurance received in 2020 for loss margin from outages incurred last year.

Our third quarter results are $40 million lower than 2019, driven by milder weather resulting in lower mass load, higher prices in 2019, which benefited our ERCOT generation portfolio, and higher sales and marketing from 2020.

Moving to free cash flow before growth, year-to-date cash flows are higher by $562 million versus 2019. This large increase is due in part to the receipt of approximately $60 million in cash flow items carried over from 2019, as well as some new initiatives focused on increasing our cash on hand to help fund the acquisition of Direct and eliminate the need for new equity issuance.

For example, under the CARES Act, we elected to delay FICA payments and accelerated the receipt of AMT refunds that were previously expected beyond 2020. In addition, given our higher pension contributions in 2019, as well as planned asset appreciation, we've also deferred over $30 million of pension contributions into 2021.

Finally, as Mauricio mentioned in his opening remarks, we're narrowing our 2020 consolidated adjusted EBITDA guidance range to $1.95 billion to $2.05 billion. And as a result of our efforts to accelerate cash to help fund the Direct acquisition, we are both narrowing and increasing our consolidated free cash flow before growth guidance to $1.45 billion to $1.55 billion, representing a $125 million increase versus the midpoint of our prior guidance.

As I mentioned earlier, a portion of this increase represents a pull-forward of some of our 2021 cash flows, including both acceleration of cash inflows, previously expected in 2021 as well as the deferral of certain cash outflows into 2021, which I'll address further in a few moments.

Turning to slide 9 for a 2021 guidance update. We're maintaining our 2021 adjusted EBITDA guidance range of $1.9 billion to $2.1 billion. And in order to adjust for the shift in cash flows from 2021 into 2020, we're reducing our 2021 free cash flow guidance to $1.2 billion to $1.4 billion. However, due to the potential lingering effects of the COVID-19 pandemic, our current outlook for 2021 places us in the bottom half of these ranges.

While we remain focused on managing the impacts of COVID-19 on our business, the circumstances around the pandemic remain fluid and volatile. During the third quarter, NRG amended several of our renewable PPAs as we were notified by our counterparties that due to delays in both financing and construction stemming from COVID, the projects are unable to meet their original commercial operations dates.

Due to the extension of COD dates beyond 2021, NRG no longer expects to realize the supply cost advantage associated with these PPAs during the summer of next year. In connection with the change in COD for the projects, NRG negotiated lower power prices and extended terms in order to recover the 2021 impact in future years.

Turning to slide 10 to complete the 2020 update, I'll briefly review 2020 capital allocation. As shown on the left of the slides, 2020 capital available for allocation has increased by $155 million as a result of our more robust 2020 free cash flow, as well as the sale of the bulk of the remaining elements of our legacy distributed solar business, which is in the process of being finalized and we expect to close later this quarter.

After a minor increase in identified investments largely resulting from the offsetting effect of an investment in our Astoria repowering project and a reduction in the deferral of GenOn pension contributions, our 2020 remaining excess capital has increased by over $150 million putting the cash reserve for Direct Energy in excess of $800 million. Importantly, this increase is part of our revised plan to improve our financing mix for direct by eliminating the need to issue new equity, which I'll review in greater detail on the next slide.

Turning then to our updated sources and uses for Direct, which you'll find on slide 11 and starting with the original expected sources of capital we shared with you on our July 24 call, our plan to eliminate the need for $750 million in new equity-linked securities has three components. First, through the combination of increased 2020 cash and a reduction in financing costs associated with the elimination of equity issuance, we reduced our equity needs by $181 million.

Second, from a ratings perspective, half of the previously planned $750 million in convertible equity was treated as debt for ratings purposes allowing us to increase the permanent debt financing for Direct on a ratings neutral basis. The final component necessary to complete new equity were just under $200 million will be an increase in new bonds. However, this element will be temporary as we intend to repay the same amount of our consolidated debt in 2021 using the net proceeds from non-core asset sales on the portfolio optimization initiative Mauricio discussed earlier. Net proceeds represents the amount of proceeds from these asset sales after giving effect for the repayment of debt at our target leverage ratio based on the EBITDA from assets sold.

As you may recall, NRG has over $2 billion of callable debt in 2021, representing both our highest coupons and nearest maturities. By issuing new lower-cost bonds and then subsequently repaying this legacy corporate debt, we create a more cost- and maturity-efficient way to achieve this debt reduction without relying on a traditional asset sale bridge.

We are confident in our ability to generate at least this amount of excess capital from asset sales in order to return to our target credit metrics in 2021, which remains our capital allocation priority as we are committed to maintaining these metrics as we continue to target an investment-grade rating by late 2021 or early 2022.

Finally, as noted on the slide, we've made significant progress in increasing liquidity in connection with the transaction and are on track to completing the total of $3.5 billion in additional facilities prior to closing the acquisition. We also remain on track to issue the debt financing for Direct prior to the closing of the transaction as well.

Turning to 2021 capital allocation on slide 12, to update the combined 2021 capital allocation provided on our July 24 call, we have adjusted the 2021 excess cash to reflect the reduction in the midpoint 2021 NRG free cash flow associated with that pull-forward of cash flow into 2020. After giving effect for the $150 million increase in minimum cash following the Direct acquisition, this leads to just over $1.5 billion in 2021 capital available for allocation.

Our expected 2021 dividend is unchanged. And after giving effect for a modest increase in investments from the Astoria repowering project and a reserve for continued small retail book acquisitions, we continue to commit all remaining capital or approximately $950 million to debt reduction in order to achieve our objective of returning to our target metrics in 2021.

Finally, I'll turn to a brief update on those 2021 credit metrics, which you'll find on slide 12. This is now based on our updated financing plan, which is shown in the middle column. After adjusting our pro forma corporate balance for debt reduction from 2021 capital allocation as well as the reduction in temporary debt using net proceeds from asset sales, our 2021 pro forma net debt balance is approximately $7.2 billion, which based on the midpoint adjusted EBITDA implies a pro forma ratio of just over 2.7 times net debt to EBITDA.

And with that, I'll turn it back to Mauricio.

Mauricio Gutierrez

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

Thank you, Kirk. Turning to slide 15. I want to provide you a few closing thoughts on our 2020 scorecard. As you can see, we have been quite busy. Our team has remained focused on execution as we deliver strong results, advanced the completion of our three-year transformation plan, and entered the next phase of our transformation, perfecting and growing the integrated platform. Our company is stronger today than it has ever been. And what gets me excited is that the best is yet to come. I look forward to sharing with you a more fulsome rollout of our customer-focused platform at our Analyst Day in early 2021.

So with that, Felicia, we're ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Julien Dumoulin-Smith of Bank of America.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

Good morning, team, and congratulations on all the updates here. If I can just start off on just the [indiscernible] (00:25:39), can you elaborate a little bit more on the asset sale piece here? Basically, how much EBITDA or cash flow loss should we be thinking about given that you're talking also about real estate, which may not necessarily contribute meaningfully here? And then related, if I can, how are you thinking about this – I dare I call it initial asset sale into the broader picture of any further transformation of the company?

Mauricio Gutierrez

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

A

Yeah. Good morning, Julien. So let me start by just saying that any of the portfolio optimization asset sales that we will do are going to be value accretive and credit neutral. That's going to be the overarching goal and framework. Now, taking just, if you don't mind, I'd like to take just a little bit of step back and start with your second question, so you understand better what we're doing here. When I think about perfecting the integrated model, what that means is growing our retail business, which we've done very successfully over the past two years, but also optimizing our generation assets and our service – our portfolio of services to best meet the needs of our customers. That's the criteria that we're going to be using to evaluate our platform. And we – I think everybody recognizes the capability that we have in commercial operations, that is a strength. We have the ability and the opportunity to evaluate given market conditions, whether we want to be owners of assets, whether we want to rent assets, or if we want to partner with other service providers.

I don't think there – we need to always be thinking about vertically-integrating and generating every single megawatt that we sell to our customers or every single service that we provide them. And the best example that I can give is our renewable PPA strategy. We added close to 1,600 megawatts, very efficiently, add value, and we felt that that was the best way to continue meeting the needs of our customers. And we're going to do the same on the services side. So hopefully, that provides you at least the general framework and some of the guidelines around how I think about value in terms of they have to be value-accretive and they have to be credible.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Mauricio, if I can – I'd love to hear a little bit of your initial thinking as you think about this transformation, considering you have this more comprehensive update early next year. And specifically, what I'd like to hear about, if you can, is how are you thinking about expanding this retail business. Like, you talked about being customer-oriented, customer-focused on the services you're offering. You specifically mentioned partnerships a moment ago. Can you at least initially elaborate on where you're thinking about taking this? Obviously, with Direct here, perhaps you have a little bit more exposure on the commercial industrial side than you did previously? Perhaps on the gas side, you have a little bit more exposure. But please, if you can.

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

A

Sure, Julien. Well, I mean, if you think about Direct Energy, it actually advances and accelerates that transformation to become more customer-focused, and I would say almost a consumer service type of company. If you look at the Direct Energy acquisition, it doubled the size of our retail portfolio. We're now going to have a network of 6 million customers. Just think about that. So, we need to be thinking – what you're going to be hearing on the Analyst Day is, how we're going to optimize that network of 6 million customers. In addition, not only we're just looking at electricity, with the acquisition we expanded the natural gas retail platform with Direct, which is one of the most recognized and best-in-class natural gas retail platforms. We enhanced also the products and services that we offer around the customer.

And here the goal is how do we create more stickiness? How do we by combining the core offering that we have and sharing the common platform, retail platform whether it is customer billing, invoicing, customer care, commercial operations, how do we create a multiplier that not only allows us to access greater margins, but makes them more stickier and makes our customers more loyal. I think you need to start thinking about lifetime value of customer, and we're going to be talking about on the Analyst Day.

The second thing is, it also helps us – gives us the opportunity to achieve $300 million of synergies in this acquisition. And we have the team that has proven to achieve these kind of synergies, and we have done it over the last three years and we're going to do it again over the next three years. So, this is how we are setting up the company, when I say customer focus. With that, we believe the value going forward given the macro trends that we're seeing are moving closer to the customer. And whoever owns that network of customers is going to have an opportunity to maximize it in a way that I believe hasn't been done in the energy space.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

I'm sorry, if I can – did I hear you talk about cost focus as well here, that's just another thing that – the last time you guys did a transmission. I just want to harp on it a little bit here, if I can.

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

A

Yes, absolutely. I mean, we're going to maintain our cost excellence. It took us a lot to get to where we are today over the past three years to have a best-in-class and our cost structure. We're going to maintain it. And – but as I said before, we have an opportunity with Direct Energy to achieve significant synergies on our processes and systems, expand our platform, better balance our portfolio in the East. So I'm really excited about what this acquisition is going to bring to NRG and our goal of continue to transforming the company.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Excellent. Thank you, guys, very much for the time. Best of luck...

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

A

Thank you.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

...here in the next few months.

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

A

Great. Thank you, Julien.

Operator: And your next question comes from the line of Jonathan Arnold of Vertical Research.

Jonathan Arnold
Analyst, Vertical Research

Q

Hi. Good morning, guys.

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

A

Hey. Good morning, Jonathan.

Jonathan Arnold
Analyst, Vertical Research

Q

A quick one on [ph] you see you announced (00:32:42) – you're saying that you are currently thinking lower end of the range is 2021. But I think you also said you were working to offset the pressures you've identified from COVID. So I just wanted to – just if you could update on sort of what you're looking at doing? And whether you feel that it's possible to move yourselves back more comfortably into the range?

And then, could we maybe break down the headwinds between the delayed PPA project effect and other factors of it?

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

A

Yes, Jonathan. So as we mentioned on our prepared remarks, 2021 was impacted by the delays on the PPA start date due to COVID-19. We're -- we know that we're early in the game. I mean, we're not even in 2021. So, just like we did in 2020 where we mitigated most of the impact of COVID-19, we're already focused in mitigating the impact for 2021, and – but obviously, depends also on COVID-19 as a whole, how long is the pandemic going to last, what is the impact that it's going to have on our sales channel. But I believe that we have been conservative on our assumptions. And if it lasts longer, it will have an impact. But it lasts – but if it is shorter, then we will have an opportunity, Kirk?

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

A

Yeah. The only thing I'd add is – first of all, [ph] you meant you used your words trying to (00:34:17) break down the headwinds. The delay in the PPAs that both Mauricio and I talked about, I called that the primary driver for that directional guidance. The balance of the potential headwinds or the possibilities of COVID across the board, I call it, I even mentioned this, selling and marketing costs was one element of that, it to reinstate or reinforce our sales channels either by enhancing digital, if we find ourselves in a position that we can't return to a robust face-to-face environment from a selling standpoint, or just ultimately returning to a regular clip and maybe in the near term more robust on face-to-face selling and marketing to continue to drive customer growth in particular in the East, which has probably been disproportionately impacted by the lack of the ability to sell face-to-face.

So, those are a couple of the components of those headwinds. But again, returning far away I'd say the PPA delay is the biggest piece of that directional guidance, if you will.

Jonathan Arnold
Analyst, Vertical Research

Q

Perfect. Thank you very much.

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

A

You bet.

Operator: And your next question comes from the line of Stephen Byrd with Morgan Stanley.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning.

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

A

Hey, good morning, Stephen.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Thanks for a really thorough update on a lot of topics. I wanted to build on the prior question. And Mauricio you talked about the broader strategy. And I'm just thinking about expansion outside of ERCOT, and especially in places like PJM, how are you thinking about sort of the risks in that market on one end, especially given sort of some uncertainties around the capacity market construct? But on the positive side, I guess, I could see a lot of synergy potential, especially on the retail side, which you've proven to be quite effective. But what's generally your appetite for expansion? How do you think about sort of risk-reward in some of the other power markets?

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

Yeah. So answering a specific to the PJM and I would say, the Northeast as a whole, with the acquisition of Direct Energy we're able to rebalance or to much better balance our generation with our retail business. While I recognize that the Northeast is not Texas in terms of just the openness and competitiveness of the retail market, it's a good market, and it has the opportunity to get better and to improve.

And I actually believe that it will happen for two things. One is, the – just a smart technology, the Internet of Things is going to empower customers a lot more than what they have been done. And with that comes more energy choice. And energy choice means more open and transparent competitive retail market. So I think the wind is on our backs on that. So, and – but having said that, there is something particular in these, which is we can actually access multiple products and services. So, we not only sell electricity, but we also sell natural gas, other products and services. So the margin opportunity in the East versus Texas, which Texas is more – it's a bigger house footprint when it comes to electric consumption, the market is very open. In the East, we have the opportunity to sell these multiple products and services, which rivals the margin opportunity for us in Texas.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC
Q

Yeah.

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

Does that answer your question? I know that you had also another one on capacity. Did I hear that correctly?

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC
Q

Well, that's right. I think you partly addressed it in terms of just focusing on the overall level of attractiveness. But how do you think about, I guess, on extending in terms of your power plant position outside of Texas and places like PJM, just given that there is some uncertainty around the future of the PJM capacity construct?

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

I mean, right now, as I said, I mean, we're a much better-balanced portfolio after the Direct Energy acquisition. We were a lot longer generation than retail that we're now a lot more balanced. But as I said previously, our goal is to continue to optimize our generation portfolio and our services portfolio to best meet the needs of our customers. That's the overarching criteria that we're going to be using. And as I mentioned, I mean, we're going to continuously look at the makeup of our generation portfolio to see, do we have the right mix given where our customers are, and if not, then we're going to be very aggressively changing that makeup. And I think, one thing that is important is we don't have to own every single [ph] nickel (00:39:15). And I think that's critical. We have a commercial operations capability that is second to none in the industry that allows us to either rent through PPAs or tolling agreements, access the market opportunistically, own our generation and that's what we're going to be doing continuously. This is not just a − it happens now and it stops. We're going to continuously optimize our portfolio.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

That's very clear, Mauricio. And maybe just one last one on high-level on renewables. Would you mind just talking to the sort of competitive playing field for renewables and anything changing there? How do you think about sort of the level of risk you're willing to take in terms of sort of incurring cost before securing off-take contracts? How about sort of thinking about tax attributes, just any other dynamics around the competitive playing field for renewables?

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

A

Well, I mean, let me just start by saying that we have been quite active but now on the contracting side as opposed to the developing renewables, both contract and renewables. So we have a lot of market intelligence in terms of where these projects are. What are some of the economics where you can actually execute those projects? And quite candidly some of the operational challenges, I mean, that's why we saw the delay here in 2021. We were talking about it. If you remember a couple of earnings calls ago that − there could be an impact of COVID-19 in these projects. Now we're seeing it.

Fortune − I mean, we were very keen on these. This is value-neutral because, I mean, we wanted to provide this flexibility for developers and these are very well-known developers but we wanted to make sure that we did it at value-neutral. So, I mean, my take is that renewables are going to continue to be the margin of megawatt developed in the country as a whole. I think it's fair to say that smart technologies and clean energy will continue to grow in the coming years. And I think we're really well-positioned for what that means to the electric grid.

On one hand, we – given the strength of our balance sheet, we're able to access some of these renewables, at very attractive economic economics for a term that is better for our retail business. And other – if that impacts the prices then we have an opportunity to access that through lower supply costs. So, I'm very, very comfortable where we are. Chris Moser, anything particular that you're seeing in the markets around renewables and then perhaps Kirk something on tax equity.

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

A

Mauricio, this is Chris, the only thing that I would mention is that really what you're talking about is two different kind of business models. We're looking for the sign the deals and have the offtake. We don't – I wouldn't expect us to even to go out and build a bunch of renewables with our cost of capital, right? That's not a game that I think is kind of our approach. So, I would just say that. There's a lot of renewables going to get built. There's a big slug that's coming in Texas here in the next couple of years. And we're happy to be the off-taker and not own it on the back end.

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

A

Yeah, and the only thing I'd add on the financing side, I think we've talked about this for in various conversations. I mean, we've seen a little bit of a pullback or a tightening around the tax equity market, little bit more scarcity around that. Obviously, that's going to impact the cost of financing, which in turn attracts the appetite for PPAs.

And if that headwind or that governor, if you will, that drives the PPA appetite up, that doesn't change our discipline around where we see value in pricing, new PPAs relative to where the market is at the end of the day. But I think that in addition to Mauricio's comments, sort of that kind of gives a little bit of a pacer, if you will, for the pace of newbuild at least as far as renewables are concerned in terms of the less liquid aspect of that market because some of the banks kind of pulled back a little bit from a tax equity perspective.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Now, I see that's helpful. But that's sort of – it's somewhat of a limit turn off. So probably helps you on the PPA side. Well, that's great color on a lot of fronts. Thank you very much.

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

A

Thank you, Steve.

Operator: And our final question comes from Keith Stanley with Wolfe Research.

Keith Stanley
Analyst, Wolfe Research LLC

Q

Hi. Good morning. Sorry, if I missed this, but of the 1.6 gigawatts of renewable PPAs, how many of megawatts of that is delayed, and roughly how long?

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

A

Yeah, so, I mean, right now we have 1.7 gigawatts assigned. The delays are I would characterize in six to eight months. So a lot of these projects were impacted in the first six months of the year given some of their supply chain disruptions and just the shutdown orders, stay-at-home orders. So our expectation is that they will be available to us for 2022.

And in terms of the megawatts, I would say, for 2021, was the -- vast majority of the megawatts that we had slated for 2021 had been delayed. I don't think we have provided the breakdown by year and we're not going to provide the breakdown by year.

Keith Stanley
Analyst, Wolfe Research LLC

Q

Okay. Thanks. And then, one quick one, just the Astoria repowering that you mentioned in the slides on capital allocation. Are there any details you can provide on that project? Just timeline and financing or contracting for that?

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

A

Sure. Chris?

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

A

So it's working through the permitting and environmental impact statement process right now. So it's going through that kind of stuff. And if you remember going back to the [indiscernible] (00:45:38), the existing Astoria site goes out at – I think it's right before the summer of 2023, so that would be kind of the timeline for expecting it to be online.

Keith Stanley
Analyst, Wolfe Research LLC

Q

Great. Thank you.

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

A

Thank you, Keith.

Operator: And that is all the time we have for Q&A. I will turn the call back over to Mr. Mauricio Gutierrez.

Mauricio Gutierrez

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

Thank you, Felicia. Thank you for your interest in NRG. I look forward to speaking with all of you in the coming weeks and months. As you can hear, as you can tell, we're very excited about the future and the prospects of the company. Thank you and talk to you soon.

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