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CORPORATE PARTICIPANTS

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

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

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

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

Craig Cornelius
Senior Vice President, Renewables, NRG Energy, Inc.

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

OTHER PARTICIPANTS

Greg Gordon
Analyst, Evercore ISI

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Steve Fleishman
Analyst, Wolfe Research LLC

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

MANAGEMENT DISCUSSION SECTION

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

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

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

Thank you, Esther. Good morning, and welcome to NRG Energy's third quarter 2016 earnings call. This morning's call is being broadcasted live over the phone and via webcast which can be located in the Investor section of our website at www.nrg.com under Presentations and Webcasts.

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

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

In addition, we will refer to both GAAP and non-GAAP financial measures. For information regarding our non-GAAP financial measures and reconciliation to the most directly comparable GAAP measures, please refer to today's press release and presentation.

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

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

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

I want to start by highlighting the key messages for today's call on slide 3. First, we're narrowing and increasing our 2016 EBITDA guidance by $200 million at the midpoint. Our exceptional performance by everyone in the company once again highlights the value for integrated platform, and its continued ability to perform on the variety of market conditions.

Second after reintegrating the Renewals business into NRG earlier this year, we're now fully leveraging our proven operational platform. As you will hear later in the presentation, we have a robust and growing Renewables business that not only enables us to acquire and operate assets in one of the fastest growing parts of the energy industry, but also helps to strengthen our partnership with NRG Yield. This business is executing on market opportunities and with a SunEdison transaction is only getting stronger.

Last, I am extremely pleased with our progress in strengthening the balance sheet. As of today, we have reduced our corporate debt obligation by $1 billion, bought back $345 million in convertible preferred shares, and extended over $6 billion in near-term maturities well beyond 2020. These are impressive numbers, given we started our efforts only one year ago and this has been one of my primary objectives since becoming CEO. I wanted to thank everyone in the organization who worked hard to achieve our targets in such a short timeframe.

Now, moving onto the third quarter results on slide 4. Today, we're reporting third quarter adjusted EBITDA of $1.173 billion, a testament to the continued operational and financial strength of our business. Once again, despite the sustained low commodity price environment, our platform delivered.

I want to highlight the outstanding results of our Retail business for the quarter, which increased by 18% year-over-year, recording one of its strongest performances ever. Elizabeth and her team continue to operate a best-in-class retail business, and together with our commercial team, have proven extremely effective in supply and risk management and in strengthening customer relationships. Well done to the entire retail and commercial teams on your continued success. I also want to recognize everyone in the organization for improving our safety record over the quarter and returning us to a top-decile performer.

Our Generation business performed well during some very challenging market conditions. Not only did we protect the value of our fleet during very low summer prices, but we also executed our asset optimization projects on time and on budget, including three coal to gas conversions this year. We remain focused on strengthening our Yield growth during the quarter by expanding the potential pipeline of projects. In addition to the SunEdison transaction, we also completed the dropdown of CVSR and today, we are announcing an agreement to build 73 megawatts thermal equivalent at the University of Pittsburgh Medical Center on behalf of NRG Yield.

Last, we have been making good progress in streamlining our cost structure, and remain on track to achieve $400 million in savings by the end of 2017 under our FORNRG program.

Underpinned by our hedge profile and integrated model, we're initiating 2017 financial guidance of $2.7 billion to $2.9 billion. Later in the presentation, Kirk will provide additional details. But for now, I want to highlight our consolidated free cash flow range of $800 million to $1 billion. As we have done in the past, we manage our business for cash, and this guidance speaks to the stability and strength of our free cash flow generating ability, which at current prices implies a 30% free cash flow yield.

Let me turn now to our market slide on slide 5. This summer proved to be a disappointing one from a pricing standpoint, particularly in the East, where temperatures were almost 30% above the 10-year average, but prices were flat compared to the forward market. This was due to a lack of load growth and much lower gas basis. In Texas, we experienced mild weather, but even under these conditions, ERCOT still managed to post a record peak load of 71 gigawatts, a roughly 2% increase from the previous peak one year ago. We have consistently said that this is the only market where we are seeing load growth, and this summer is evidence of that. Unfortunately, prices came in much lower than expected, in large part due to the overperformance of wind, which was about twice the expected production during peak hours, eliminating the potential for scarcity pricing. As you can see on the right side of the slide, disappointing summer prices and the recent selloff in gas have been putting some pressure on the forward market.

Longer-term, and turning to slide 6, we remain bullish in our outlook for ERCOT, particularly at these price levels, where we see a clear opportunity for a market correction in the near future. As I just noted, ERCOT is experiencing real demand growth, about 1.4% year-to-date, which is the strongest in the country. But despite the new peak load this summer, we did not see scarcity pricing. And we actually have not seen it for a number of years. I want to reiterate that the ORDC is not providing the right scarcity pricing [ph] now (7:45) to existing or new generation.

As an energy-only market, correct price signals are imperative for its proper functioning. We are hopeful that with the resolution of EFH restructuring, the PUCT will turn its attention to ORDC reform and we look forward to working with both the PUCT and ERCOT to improve the markets.

We're also starting to see units retired, given persistent low power prices. These retirements will only be accentuated by additional environmental compliance requirements. We believe there are at least 4 gigawatts to 8 more gigawatts currently at risk, none of which are NRG units. The combination of strong load growth, units at risk, higher environmental cost, potential delays in new builds, and market structure reforms, drives our constructive view in ERCOT.

Turning to the East, energy margins in PJM remained under pressure, given the new capacity performance requirements that, in essence, reduce the probability of scarcity pricing. These, combined with no load growth and the significant amount of new gas builds coming online in the new few years, result in a less than favorable outlook for energy margins.

Capacity on the other hand is a different story. The next PJM auction will be the first with 100% capacity performance requirement. This CP-only market construct will impose significant risk on the 17 gigawatts of generation that cleared as base capacity in the last auction, as well as the 10 gigawatts of demand response and energy efficiency that also cleared as base capacity. Let me be clear that's 27 gigawatts of capacity that has a decision to make on how and what to bid into the CP auction in May.

One last thought on the markets. It is important to reiterate that we will take firm action against any out of market efforts that undermine the integrity of competitive markets like the ones we have seen in New York, Ohio, and Illinois. As proponents of competitive markets, you can expect us to be vocal advocates of our position.

Let me turn to our Renewables business on slide 7. In the past, I have discussed with you the importance of Renewables Generation in our future and the positive trends we see in that market. Higher Renewables portfolio standards, increasing corporate sustainability targets, and cost efficiencies are the basis for sustained growth in Renewables demand. In my first call as CEO, and consistent with this outlook, I announced that reintegration of our Renewables business back into NRG, recognizing the changing landscape of the power industry and the compelling growth opportunities for NRG.

Our Renewables business is unique, as it leverages NRG's existing operational platform and customer relationships from the traditional Generation and Retail businesses. We also have the ability to augment our Renewables business by acquiring or developing Renewable assets that can be Drop Down to NRG Yield. This puts NRG in an excellent competitive position to execute and play in this space in a meaningful way. Today, we operate over 4 gigawatts of wind and solar assets, making us one of the largest renewable generators in the country. We are focused on building out our pipeline and creating line of sight several years into the future. We have been hard at work developing projects and currently we have approximately 800 megawatts in near-term and backlog assets and an additional 2.6 gigawatts of pipeline capacity.

Renewables provides not just an opportunity to execute on low-cost growth, but also a way to enhance our value proposition by contributing to our stable base of earnings, and providing visibility into future cash flows. This is an important business that is strong today and only getting stronger.

Turning now to our SunEdison asset transaction on slide 8. In September, NRG was selected as the winning bidder for a 1.5 gigawatt portfolio of utility-scale wind and solar assets at an initial purchase price of $129 million with $59 million in earn-out potential. In October, we completed the purchase of 29 megawatts of distributed Generation assets for $68 million.

Our scale, diverse platform and partnership with NRG Yield afforded us significant advantages during the bidding process and these same characteristics will continue to be advantageous, as a developer and operator of these assets in the future.

For the utility-scale transaction, we were able to mitigate risk and maximize reward by purchasing a portfolio of assets in which we could ascribe the majority of the transaction value on the operational assets, and maintain the pipeline as an option at a steep discount to market prices. To be more specific, over 85% of the total purchase price is justified by the expected value of the operating assets in Utah. The balance will come from the development and optimization of the 1.2 gigawatt backlog and pipeline, representing a low-cost option for growth.

With our distributed assets, NRG would expect to achieve strong returns as a result of placing these megawatts into our DG partnership with NRG Yield. This transaction is a significant win for NRG, as we continue to build out our position as a leader in renewable generation. We executed on a unique opportunity to accelerate the growth of our Renewables business while setting the foundation for strengthened partnership with NRG Yield. It is our expectation that this will be temporary use of capital that can be recovered in a short period of time.

Now, turning to slide 9, I'd like to discuss our current thinking and capital allocation for 2017. Although details will come out on our next call, I'd like to provide you with my current assessment of our options, as I see them today particularly on the 30% of the capital that is yet to be allocated. I want to first remind you of our philosophy on capital allocation. Maintaining the robustness of the balance sheet and making decisions that are cycle appropriate, our guides, our approach to allocating capital. We're in a deeply cyclical sector, which means that we must plan ahead, anticipate markets and leave no doubt about our financial strength, particularly during down cycles such as the one we're currently facing.

Last year given the market outlook and to reduce our overall leverage, we initiated a $1.5 billion deleveraging program. Over the course of the past year, we have made significant progress toward this target, and as we are finishing these commitments, I want to assure the market that cycle-appropriate leverage and capital discipline will continue across the organization into 2017.

With respect to growth, given the low commodity price environment, we are focused on low-cost options or areas of quick capital replenishment such as the SunEdison transaction.

Finally, we remain committed to returning cash to shareholders when we feel our capital structure is strong enough to allow for flexibility. At the beginning of the year, we revised our dividend program to be consistent with the cyclical nature of our industry and I remain comfortable with our dividend policy. We continue to evaluate the potential for share buybacks, given our current share price and free cash flow yields.

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

Kirkland B. Andrews

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

Thank you, Mauricio, and good morning, everyone. Turning to financial summary on slide 11, NRG delivered $1.173 billion in Adjusted EBITDA in the third quarter, it was aided by strong performance by our Retail Mass business, which contributed EBITDA of $266 million.

Generation and Renewables combined for $605 million in Adjusted EBITDA in the third quarter, while NRG Yield contributed $246 million. As required by GAAP, following completion of the dropdown of NRG's remaining interest in CVSR to NRG Yield. Adjusted EBITDA at NRG Yield now reflects 100% of consolidated CVSR results with an equal reduction in Generation and Renewables results. Through the first nine months of the year, NRG generated almost $2.8 billion in Adjusted EBITDA and $1.1 billion of free cash flow before growth.

Based on performance year-to-date and our updated outlook for the balance of the year, we're increasing and narrowing our 2016 Adjusted EBITDA guidance from $3.25 billion to $3.35 billion, which I'll review in greater detail shortly.

As of this week, we've now completed over $1 billion in corporate debt reduction over the course of the last 12 months, with $777 million completed year-to-date, and $246 million retired in the fourth quarter of 2015. This significant reduction in corporate debt helps ensure we can maintain our balance sheet targets through the low commodity price cycle. In addition, when combined with the retirement of our convertible preferred, and the extension of corporate debt maturities at more favorable rates, our deleveraging efforts also help generate nearly $90 million in annual interest and dividend savings, improving NRG level free cash flow.

While the specifics of the 2017 capital allocation plan will be laid out in more detail on our year-end earnings call, we do intend to reduce corporate debt by an additional $400 million through the retirement of the remaining balance of our 2018 Senior Unsecured Notes. This will further enhance balance sheet strength, reduce interest expense, and extend our nearest unsecured maturity to 2021, the balance of which is now only $200 million.

During the third quarter, NRG also completed the Drop Down of our remaining 51% interest in CVSR to NRG Yield which when combined with the proceeds from the CVSR non-recourse debt financing generated total cash proceeds to NRG of approximately $180 million.

Turning to slide 12. I'll provide some greater detail on our revised 2016 guidance as well as initiate guidance for 2017. As I mentioned earlier, we're narrowing and increasing our 2016 Adjusted EBITDA guidance range to $3.25 billion to $3.35 billion.

As noted on the slide, this revised 2016 guidance range includes the impact of $120 million of Adjusted EBITDA, resulting from the monetization of hedges at GenOn, which would have otherwise been realized in future years. The updated 2016 business and Renewables range also reflects this increase from the GenOn hedge monetization, as well as the movement of CVSR EBITDA to the Yield segment, following the dropdown which closed this past quarter. Based on a strong Retail Mass performance through the first nine months of the year we're also increasing this component of 2016 EBITDA guidance to $725 million to $775 million.

Finally, the increase in the NRG Yield component of guidance is primarily driven by the movement of CVSR Adjusted EBITDA from Generation to Yield following the dropdown, as well as stronger than expected year-to-date performance across the wind portfolio.

We're also narrowing the consolidated free cash flow before growth guidance range to $1.1 billion to $1.2 billion, which reflects the impact of the $120 million in non-recurring debt extinguishment cost incurred in connection with our successful debt reduction and maturity extension efforts during the year. This reduction in expected NRG level free cash flow before growth is solely due to these one-time debt extinguishment costs.

Moving to 2017, on the right side of the slide, we're initiating consolidated Adjusted EBITDA guidance of $2.7 billion to $2.9 billion. $100 million of the GenOn hedge monetization EBITDA, which was realized in 2016, serve to reduce expected 2017 EBITDA and is reflected in both our Generation and Renewables and consolidated EBITDA guidance range for 2017.

Greater than 75% of the year-over-year drop in Adjusted EBITDA in the Generation and Renewables segment is due to declines at the GenOn level, which includes the year-over-year impact of the hedge monetization. The remaining components of 2017 Adjusted EBITDA guidance consist of $700 million to $780 million at Retail Mass, and $865 million at NRG Yield, where the year-over-year difference simply reflects the impact of outperformance in 2016 wind generation versus median wind production expectations embedded in our 2017 guidance.

Moving to free cash flow guidance, the drop in GenOn Adjusted EBITDA is also reflected in the 2017 consolidated free cash flow before growth of $800 million to $1 billion, which includes approximately $300 million of negative free cash flow at GenOn.

Finally, to arrive at 2017 NRG level free cash flow before growth, we add back that negative free cash flow at the GenOn level and deduct free cash flow, net of distributions from NRG Yield and other non-guarantors, which leads to an expected range of $700 million to $900 million of NRG level free cash flow in 2017.

Importantly, expected NRG level free cash flow in 2017 is in line with 2016, net of those one-time debt extinguishment costs, primarily due to the significant year-over-year decline in NRG level capital expenditures, as well as the full year impact of interest savings from our corporate level debt reduction program.

Turning to slide 13 for an update on 2016 NRG level capital allocation. I've highlighted in blue the changes since our prior quarter update, which include the impact of the $120 million in debt extinguishment cost I mentioned previously, as well as the increase in gross investments of approximately $190 million, which reflects the SunEdison transaction.

These two items serve to temporarily reduce the excess capital balance reserved for the 2018 NRG Senior Notes, which now stands at $120 million. The balance of our 2018 Senior Notes has been reduced by $200 million following the quarter-end, as we completed our 2016 debt reduction program, and the remaining balance of these notes now stands at only $400 million.

During 2017, we plan to replenish the 2018 debt reserve to $400 million, to ultimately retire the remaining balance using 2017 excess capital generated through NRG level free cash flow and the continuing monetization of our NRG Yield eligible assets, which now include the operating portion of the SunEd portfolio. When combined with over $1 billion in debt reduction already achieved over the past year, this leads to over $1.4 billion in debt reductions through 2017.

Finally, slide 14 provides an update on expected Corporate 2016 balance sheet metrics, as well as a first look at 2017. Starting with 2016, having repurchased a portion of our 2018 and 2021 notes following the third quarter end, we've completed our 2016 deleveraging objectives, driving corporate debt to $7.8 billion, the exact target corporate debt balance first established as part of our 2016 capital allocation plan which was announced during our February earnings presentation. Based on midpoint 2016 guidance, this gives an implied corporate debt to corporate EBITDA ratio of just under four times.

Turning to 2017 metrics on the far right of the slide, we intend to further reduce corporate level debt by an additional $400 million, as I mentioned, by retiring the remaining balance of those 2018 Senior Notes, which brings corporate level debt to $7.4 billion. Which when combined with the 2017 corporate EBITDA based on the midpoint of our 2017 guidance, places us just under our target ratio of 4.25. As we continue to ensure we achieve our balance sheet target through the low commodity price cycle.

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

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

Thank you, Kirk. And to close, on slide 16, you have our 2016 scorecard. And we have made significant progress across all the goals that we set for the organization. We have delivered on our operational and financial objectives. We have significantly reduced our debt profile, we have taken steps to reinvigorate capital replenishment through our strategic partnership with NRG Yield and we continue to look for ways to streamline our organization. As I look at the scorecard, I want to commend the entire team for their efforts in strengthening our business.

On our next call, I will outline my 2017 objectives but for now, I would like to quickly touch upon a very important priority: GenOn. Both NRG and GenOn continue to be focused on a comprehensive strategy that maximizes value for all stakeholders. As we are at the initial stages of evaluating available options, it's too early to provide any more specificity but please know that we will update the market as appropriate.

With that, operator, we're ready to open the lines for questions.

QUESTION AND ANSWER SECTION

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

Greg Gordon
Analyst, Evercore ISI

Q

Hey, thanks. As you think about the capital allocation for 2017, you know you gave us the free cash flow before growth, you've then on slide 9, you sort of tell us preliminary how are you thinking about it. But when you look at the 31% of that cash that's uncommitted and you talk about – you talked about the idea of the share buyback but are there other means in returning cash to shareholders that don't necessarily result in an increase in the fixed quarterly dividend like some sort of variable dividend payment or special dividend that are on the menu of potential options?

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Yes. Good morning, Greg. And as you mentioned, we're evaluating all options. I think what I can try to do in this call since our capital allocation plan will be provided to all of you in our next earnings call is our current thinking and we're evaluating all options. Just like I did at the beginning of this year in terms of our priorities and how we see the market and the economics of our portfolio, we're going to do the same. So, we're evaluating not only share buybacks, the dividend policy, and I think special dividends but – I mean at this point what I will tell you is, as I think about it I am comfortable with the dividend policy where we are today in terms of the cyclicality nature of our industry. And when I look at the share buybacks from the free cash flow, particularly these current prices, has to take that into account. So, Greg, I – in the next couple of months, we're going to continue assessing the market. We're going to see our current spot price; we're going to see our leverage ratios which, as Kirk indicated, it's right on target with the guidance that we have provided and that we feel comfortable and we'll finalize it in a couple of months.

Greg Gordon
Analyst, Evercore ISI

Q

Great. Thank you. On a totally different subject, when we talk about – you talked about the markets. We all saw what happened in Texas this summer. You articulated it very clearly. You attributed a big part of the lack of scarcity pricing to the overproduction of wind. I guess, I'm wondering, and other people are wondering whether it's right to assume that that's overproduction or if we're looking at a permanent dynamic in terms of the way that wind is going to change pricing? Or if you actually really believe that there were dynamics that caused that to be a – whether that overproduction is permanent or whether they were just weather conditions that caused that?

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

I mean, Greg, I'll let Chris give you more specifics, but as I looked at the data, particularly when you look at the seasonal study that Texas put out, the over performance was not a small. It was almost double what we were expecting. So, I would attribute that to climactic drivers, but Chris, I mean, is there anything else that you that you can share?

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

A

Yeah. I think it's fair to say that when we went back and looked we're pretty confident that at least for this year it was the weather phenomenon and not a miscalculation. They've been doing the same calculations for quite some time in ERCOT. And in this case, it just happened to be windy when it was hot and that's not generally the case that we see down there. So, we're attributing it mostly to the weather but we'll keep an eye on it.

Greg Gordon
Analyst, Evercore ISI

Q

Okay. Thank you very much.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Thank you, Greg.

Operator: Our next question comes from the line of Stephen Byrd with Morgan Stanley. Your line is now open.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Good morning and congratulations on the good results.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Thank you, Stephen, and good morning.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

I wanted to follow-up on Greg's question on capital allocation. A portion of your cash flows are contracted, actually fairly significant amount of cash flows are contracted. When you think about approaches to return of capital, in the past there's been the thought that that is a more stable source of cash flow. When you think about dividend versus share buyback, how does that factor into your thinking in terms of the fact that part of your cash flows come from outright contracts, a good portion of the cash flows also come from the Retail business that's proven to be very resilient? How do you think about sort of the nature of that risk and whether or not that might factor into your dividend thinking?

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Thank you, Stephen. And I think that's a good observation because as I have said in the past, I mean, we have been very successful in diversifying our business and the way I characterize is two-thirds of our gross margin comes from stable sources whether that is contracted assets, retail or capacity payments, or our interest in Yield. I mean, absolutely we factor that in, in terms of our approach on returning capital for shareholders whether it is a dividend or whether it is in the form of share buyback.

So, rest assured that that is not lost on me and as we're thinking about the capital allocation plan for 2017, we take that into account but I also have to asses as well the current state of our stock price and take that into consideration as a barometer for all other investments that we have in the company.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Understood. Okay. Thank you. And then I wanted to shift over to the SunEdison transaction and this is a fairly broad question but we're starting to see more companies attempt to get into the Renewables business. And I'm just curious, what you're seeing in terms of degree of competition? I'm thinking more about competition more for development rather than acquiring mature assets, if you're seeing any trends either in solar or winds in terms of the degree of competition?

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Look, I mean we're seeing a higher degree of competition, but I think that's a good thing and seems this is the first time that Craig has joined us in this call. I think the market and all of you would benefit from his comment and insights since he is living this on a day-to-day basis. But you know what I would tell you is, I think that opens up additional opportunities for us in terms of tax equity appetite. But, Craig, I mean is there an additional commentary that you want to make.

Craig Cornelius
Senior Vice President, Renewables, NRG Energy, Inc.

A

Sure. While we do see new entrants to the space, both in sources of permanent equity for assets as well as development, we think the current environment actually favors incumbent players with development and operational capabilities like our own and with a significant access to both Commercial and Mass Retail customers, as well as utility customers that we service today.

So, when we look at the market complexion over the next three to four years, we believe an enterprise, like our own, that has significant access to customers, scale and stability over almost all renewable pure play companies; access to a competitive cost of capital through Yield that's technology agnostic and can take full advantage of cost declines that are being realized in wind and solar; that's advantaged by virtue of our ownership of assets, and our operational capabilities; and a development platform that can address the full spectrum of distributed in the utility-scale opportunities; exhibits advantages that smaller scale pure play developers don't have, and can benefit from the trends of additional capital formation that's being observed in the industry.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

That's great. Thank you very much. Appreciate it.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Thank you, Stephen.

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

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. Hi. Good morning.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Hi. Good morning, Steve.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Hi, Mauricio. So just a question on the corporate aspects of GenOn. So in the 2017 guidance, I assume you still have the shared services payments in the guidance, is that still about $200 million?

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Yes. That is correct.

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

A

It's correct.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

And do you...

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

A

Just to clarify, Steve, it's Kirk, that is correct, but the only place that that would really manifest itself in guidance is within that NRG level free cash flow, because obviously that's eliminated in consolidation otherwise.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Right. And just, and do you still believe that most, if not all of that, could be offset with cost reduction in the event that went away?

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

A

We do and certainly a substantial portion of it, would be yes.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Yes. I mean, Steve, we have said it in the past, and it's our belief that that would be the case. So, I mean, at this point, I don't have any reason to provide any other indication to all of you.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Great. That's great. And then just secondly at a high-level on Retail, we're hearing on all the conference calls and just watching developments, everyone is in the power businesses a lot more interested in Retail. Obviously, you guys have been extremely successful early mover. How worried, if at all, should we be about the competitive dynamic heating up for you from this? Are you kind of better protected because of the Texas footprint? Just high-level thoughts on that issue.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

So let me give you my perspective, and then I will have Elizabeth provide some additional comments. I mean, when you think of our Retail platform, number one, I would say that we have a leading platform in the best market for Retail in the United States that is incredibly difficult to replicate particularly on the residential side. Most of the move that we have seen from IPPs into the retail space has been for C&I, which is in a slight – it's a very different value proposition, and it's a very different approach to that market.

Having said that, I always welcome new entrants in the space, because it allows us, and it allows the market, to provide some benchmark in terms of best practices, and I think, as you said, we were the first mover. We have benefit significantly from it. I think the fact that other IPPs are following suit is a testament of the integrated platform that we have been able to put in place, and the winning formula, I guess, to navigate through these incredibly transition that we're going through the energy markets.

But, Elizabeth, is there something else that you can provide in terms of competitive landscape, as you're seeing more IPPs going into the Retail business?

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

A

Sure. Thanks for the question. I would say our Retail business has extraordinarily strong momentum that's really underpinned by our scalable platform and the strength we have in supply and risk management and we've demonstrated, year-over-year, the ability to grow in both customer count and earnings. We're talking about 20,000 to 30,000 to over 100,000 customers a year organically, in addition to some of the acquisitions that we've done over the years. We also have a distinct approach in the market. We have a more diversified business than many of the competitors. We have multiple very strong brands that focus on a particular customer segment. We have a variety of products so customers can buy more than one recurring product or service from us, and we also have a strength both in Texas and the East. So overall, with that momentum and ability to focus on the customer, have strong renewals and strong acquisition performance, I feel like we're well positioned to compete in the marketplace, as we have done so successfully for a number of years.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Great. Thank you very much.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Thank you, Steve.

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

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Q

Hi. Good morning.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Good morning, Julien.

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Q

Hey. So, a little bit of a follow-up question on the last couple. Perhaps tying together a couple of concepts here. Can you talk about, at least initially, the capital allocation to the Renewables business? I know you've laid out some numbers on the slides here, but can you try to tie that back into what that means, not just for 2017, but onwards?

And also, what is the return profile, or EBITDA development multiple, however you want to think about it, in terms of the projects that you're pursuing under this 1.2 gigawatt backlog?

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

So Julien, I guess, let me just start with, I guess the returns that we're seeing and I gave some indication on the slide. I mean, we're looking at the current operational assets, particularly the utility-scale, mid-teens [ph] capital (41:00) yield. I mean, that's what we're targeting. Clearly, on the BG side, those returns are slightly higher, just the nature of the markets.

With respect to the capital allocation, one thing that it's important to recognize is that this capital allocation has a high velocity of replenishment. That's why it's so important, and so strategic, the partnership and strengthening NRG Yield, because all these assets, all these Renewable assets that are under long-term contracts, are Yield eligible for Drop Downs, which allows us to replenish the capital very quickly and at the same time, achieve very attractive returns. But, Kirk, is there any more specificity in terms of the 2017? I think Julien wanted to get – I mean, Julien, if I'm not mistaken, you wanted to get even more specificity than that, because I think it's important to – I mean the key characteristic here is the rapid replenishment of capital. So...

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

A

Yeah. Julien, it's Kirk. Couple of things to note; obviously we've layered in or added the capital allocated in 2016 relative to the SunEd acquisition that we announced, and this is true of SunEd and – not only of SunEd, but a lot of the other projects that we look at and evaluate all the time in the pipeline. Certainly, the long-term contracted nature of those projects lends itself to significant levels of debt capacity. In some cases, the existing project level debt, like was the case in fact with CVSR, which is what helped – facilitated the capital return through sort of a two-pronged effect that was optimizing the leverage on the one hand, increasing that which gave proceeds back to NRG, and ultimately dropping that asset down to Yield. We're basically able to mirror that same approach by taking advantage of the significant debt capacity first, which certainly reduces the amount of equity capital, and that's really what we refer to when we talk about capital allocated to Renewables.

As Mauricio said, because that's relatively low capital intensity, given the high degree of leverage capacity, combined with the fact that we can have line of sight of a healthy and robust CAFD Yield, it gives us good line of sight that we can continue our relationship with NRG Yield, be compensated for taking out development and construction risk, and still provide yield and opportunity for an acquisition, providing if that premium income to compensate us for the risk, and still delivering accretion to Yield. So, that's really overall, how we think about the ongoing model. Not only is it a high-velocity return, it is relatively low-capital intensity, because NRG's capital allocated is simply to the equity side of that equation.

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Q

Got it. But just, what's the total equity commitment for next year? And then, just to go back to it very quickly – well, you know what, I'll leave it at that...

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

A

Sure.

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Q

... the first question. And then, a separate follow-up question would be, you've also talked about Retail and your 2017 guidance shows a pretty healthy amount of continued Retail. Obviously, there have been some good tailwinds. Can you explain the dynamic about keeping this very high level of Retail?

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

A

Sure. And now I may offer Elizabeth the opportunity to expand on my response on Retail. What I tell you with respect to 2017 and we'll roll this out certainly in greater detail, as Mauricio said, when we expand on our capital allocation plans. But the overall amount of capital there that's represented in that percentage on the slide relative to Renewables is relatively small. And by that, I mean, probably 10% to 20% of that, at most right now is Renewables investments. The balance of that is, majority of our ongoing efforts in particular, some to re-powerings for the conventional projects, which are also Yield eligible.

So, the capital there, about 20%, at most, is currently the Renewable-committed capital within that. And again, that's a byproduct of what I talked about before. It lends itself to a high degree of leverage, which means that the capital required from NRG is relatively small on a per megawatt basis.

As far as Retail is concerned, touching on some of the points that Elizabeth made a few minutes ago, our diverse product backlog or offering, I should say, combined with the diversity of different channels through which we market give us a high degree of visibility and the resilience to be in that customer base, combined with the fact that obviously on the one side we have said we are continuing to see, especially most acutely in 2017 in that low commodity price cycle that's obviously beneficial on the Retail side of things, as manifested this year, and we certainly see that given the outlook for commodity prices going into 2017. But, Elizabeth, anything you would add there?

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

A

Yeah. The only thing I would add is we have continuous improvement line set in Retail as we do with all of our FORNRG efforts across the company and so some of the improvements that we experienced this year are in cost efficiencies and we definitely carry those forward and so that combined with our expertise in managing margins and growing customer account enable us to have confidence that we will continue to be able to deliver at that high level of EBITDA and cash flow performance.

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Q

Right, just to confirm, it's margin not customer count.

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

A

I'm sorry, say that one more time.

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Q

It's principally margin not customer count?

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

A

No, it's both. I mean, so far year-to-date we have grown a net of 40,000 customers with over 70,000 of those being in Texas, and we were striving to balance – always balance EBITDA and customer count, but when we see that kind of growth year-over-year that does contribute to our earnings as well.

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Q

Great. Thank you.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Julien, if I can just – because I get this question almost every year, the stability of Retail margins and I think this is the seventh year of ownership and we have delivered consistently and not only delivered the Retail margins for growing it. So I'm hopeful that we have earned your trust that this is a stable business and that we have the formula to continue having these margins for the foreseeable future. Thank you, Julien.

Julien Dumoulin-Smith
Analyst, UBS Securities LLC

Q

It's increasing. Thank you.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Yeah. Well, yes.

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

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.
Q

Thank you. I wanted to ask about this big drag from the working capital that you're showing in your guidance for free cash flow in 2017 that's slide 43. Can you tell me a little bit more about that $240 million, and also how much of that is a one-time issue and how much of it should I account for when I estimate your free cash flow going forward? Thank you.

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

Okay. Kirk, please take that one.

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

Angie, what I would say is we came into – this is as much a year-over-year impact as anything else. We came into 2016 with a significant surplus of coal inventory. It gave us the opportunity to right size that coal [indiscernible] (48:32). In other words, we burned what was on the pile a little bit more disproportionally than in years past because of that high level of inventory. And as we move into 2017, that's just a little bit of the natural rebuilding or recalibrating towards that.

I would say, and I can't give you the number off the top of my head but I think that's probably a little bit of a high watermark. I wouldn't say we've returned to just double-digit uses of working capital but certainly that over $200 million is a little bit of a high watermark in terms of the outlook, right. We're recalibrating the inventories there. And some of that coal burn it took place was – we had at least one plant or couple of plants in the portfolio where we are in the process of transitioning from gas – from coal to gas, I should say, and burning through that. So, lot of that is why that is exacerbated in sort of the year-over-year change in working capital.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.
Q

Okay. But you also mentioned some other issues, right, asset de-activation charges, et cetera, et cetera, at least those should be going away, right?

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

Yeah. But that's not asset deactivation charge in the context of the working capital. What I'm saying is, in 2016, a lot of the positive benefits from working capital is just that we literally took the coal power down that those plants were converting to gas, basically down to zero during that period of time. So, that really speaks to the year-over-year variance, not specifically to the working capital use that you see in 2017. That's the only distinction I was drawing there.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.
Q

Okay. And then, I know you're not providing a long-term guidance, but in the past you had said that 2017 would be the weak point of your earnings from an EBITDA perspective. Is this still true?

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

Yeah. I think that's a fair representation, Angie. I mean, if you look at just the commodity prices in 2017 and the dynamics in terms of capacity revenues and energy margins, and where natural gas is today and the roll up of hedges, I believe 2017 to be the low point.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Thank you.

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

A

Thank you, Angie.

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

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Good morning. Just real quick on the SunEdison, the 1.1 gigawatts. Can you just talk about how much of that sort has a PPA and whether any portion of that 1.1 gigawatts needs to be built within a specific timeframe where the PPA expires?

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

A

Sure, I'll let Craig to take on that. Craig? The pipeline to the 1.2 gigawatts, just some general characterization of that.

Craig Cornelius
Senior Vice President, Renewables, NRG Energy, Inc.

A

Sure. And we provided more detail about the asset mix on page 30 of the Appendix and I'll speak from that as [ph] a prompt (51:29).

One of the projects which we expect to take into the construction over the course of the next 18 months is a project in Texas on which we would expect to close later this month and then commence construction during the course of the next two quarters. That project has completion date that would be targeted in the first half of 2018. The balance of the pipeline is to be contracted. 111 megawatts worth of that pipeline is largely construction ready and actually was previously contracted. We're in discussions around a targeted timeline for that mix and the balance of the pipeline is at various stages of development. And based on its progress in terms of permitting and interconnection and power marketing opportunities and how that pipeline compares to other potential uses of development in equity capital, we would look to advance those projects. But it's reasonable to think of those projects as 2019 or 2020 type COD assets.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Okay, that's great. And then just on the 4 gigawatts to 8 gigawatts in Texas, it's good color but it's still a bit of a widespread, so what's driving that range? Is it sort of your assumptions around gas or is it a function of environmental policy, just maybe a little bit of color what's driving the bottom and top end of 4 gigawatts to 8 gigawatts?

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Oh, yeah, the 4 gigawatts to 8 gigawatts that are at risk right now, I think, most of them is uncontrolled units, unscrubbed units but Chris, do you have more specificity.

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

A

No, I think it's fair to say that it's relatively cloudy. We're still waiting to see if TXU is going to do something, the environmental regs are up in the air being fought out in the courts. And honestly, I'm not sure that we had Clear Lake as one of the ones that we thought was going to be shutting or if you'd have backed up three quarters or four quarters ago, I'm not sure we would have Greens Bayou 5 on it either. So, I think there's an abundance of caution when we throw a number out there. I think that is as much as anything.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Thanks. I appreciate and congrats on the quarter.

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

A

Yeah. Thank you.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

A

Thank you, Shahriar.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Okay.

Operator: At this time, I'm showing no further questions. I would like to turn the call back over to Mauricio Gutierrez for any closing remarks.

Mauricio Gutierrez
President and Chief Executive Officer, NRG Energy, Inc.

Thank you, and I appreciate very much your interest in NRG. And with that, we conclude the earnings call. Thank you.

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