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NRG Energy, Inc. (NRG)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Welcome to the NRG Energy Fourth Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, there will be a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, today's call is being recorded.

I would now like to turn the call over to Kevin Cole, Senior Vice President of Investor Relations. Sir, you may begin.

Kevin L. Cole

Senior Vice President-Investor Relations

Thank you. Good morning and welcome to NRG Energy's full-year and fourth quarter 2015 earnings call. This morning's call is being broadcasted live over the phone and via the webcast, which can be located in the Investor Relations section of our website at www.nrg.com under Presentations and Webcasts.

As this is a call for NRG Energy, any statements made in this call that may pertain to NRGY ield will be provided from the NRG 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 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 the reconciliations to the most directly comparable GAAP measures, please refer to today's press release and presentation.

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

Mauricio Gutierrez

President and CEO

Thank you, Kevin, and good morning, everyone. Joining me today and covering the financial part of the presentation is Kirk Andrews, our Chief Financial Officer. In addition, Elizabeth Killinger, Head of Retail; and Chris Moser, Head of Commercial Operations, are available for questions.

Let me also formally welcome Kevin Cole as our new Head of the Investor Relations. He is well known by many of you, having spent a number of years in the energy sector on both the buy and sell side. I also want to thank Chad Plotkin for providing transitional support over the past few months and wish him well as he moves on to take other responsibilities within the company.

Before we begin, I want to take a moment to acknowledge and thank David Crane for his years of service at NRG. We are grateful for his many contributions to the company for over a decade, and I want to wish him well in his next endeavors.

Today is my first time addressing you as CEO of NRG. So I'm going to deviate slightly from our normal earnings agenda, because I want to use this time to not only report on the results of our business, which were exceptional, but also to give you my perspective on the strategic direction of the company and our immediate priorities.

So let's begin on slide four, where I have outlined the key messages you should take away from today's call. First, as our financial performance has shown time and time again, we have the right portfolio and the right platform to succeed in these environments. Our business delivers strong results during periods of low prices and, importantly, our generation fleet remains significantly levered to a market recovery.

Second, in this environment, we will benefit from having a stronger balance sheet. We have initiated a comprehensive plan to reduce debt, streamline costs, and replenish capital. We are proactively doing this to take advantage of market opportunities in the short term, so we can benefit from a market recovery in the medium to long run.

Third, in order to afford ourselves maximum flexibility on our capital allocation decisions, we are recalibrating our dividend to be consistent with the capital-intensive and cyclical nature of our industry.

Finally, we are focused on bringing the GreenCo process to a closure that maximizes value for our shareholders. We are reintegrating Business Renewables back into the NRG platform with no change to our financial guidance and reinforcing our strategic relationship with NRG Yield. We are continuing the sale process of EV go and NRG Home Solar. All of these actions support our objective to continue building and operating the best integrated competitive power company.

Now, let me elaborate in more detail. Starting on slide six with the financial performance of our business, I am very pleased to report that we achieved the upper range of our adjusted EBITDA guidance in 2015 despite the challenging power markets, a company-wide restructuring and changes in management. We remain focused on our business and delivered top-quartile safety performance with our Retail business having a record year, demonstrating the consistency and value of our integrated platform. So to every one of my colleagues, job well done.

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There are a few points that I want to highlight. We are reaffirming 2016 financial guidance, which now includes our Business Renewables. Our commercial team continues to execute superbly and have mitigated the impact of lower prices for the year. We are off to a good start on our plans to strengthen the balance sheet. Since November, we have retired close to \$700 million in high-yield debt at a significant discount to par. We are expanding these by an additional \$925 million of debt reductions, which Kirk will cover in more detail.

We remain focused in replenishing capital with \$500 million in targeted asset sales in 2016, and we are accelerating our cost savings timeline. And as I mentioned before and something I will discuss in more detail in a few slides, we are reducing the annual dividend to \$0.12 per share from \$0.15 per share, which afford us maximum flexibility in our capital allocation program during this market period.

Let me now move to the strategic part of the presentation and provide you my perspective on where NRG is today and what I believe separate us from others in our industry. Stakeholders repeatedly tell me that NRG's story and capital structure is too complicated, and that the company is spending too much money on businesses that are outside of its core competencies.

I have taken these feedback seriously. And I am here today telling you that simplification of our business is an imperative both for external perception and internal focus. Efforts are already underway to address this concern. Everything from the way NRG is perceived in the market, to the way we disclose information, to the way we run our platform will be greatly simplified over the next several quarters.

Simplification starts with the way that we think about the business. The graphic on the left side of slide seven represents our thinking. NRG has and continues to be comprised of two main businesses, generation, inclusive of renewables, and retail. That is our focus. And there should be no mistake about that. But it is not only these two businesses independently that create the most value for NRG; it is the interaction between the two through our scalable operating platform.

This is truly a case where the whole is greater than the sum of its parts. The touch points between our Generation and Retail businesses underpin the NRG value proposition. A generation fleet that is well-diversified in terms of location, merit order, and fuel type, minimizing exposure to downturns in any one market, but flexible enough to benefit from a scarcity periods like we saw during the polar vortex. A complementary business model that helps insulate revenues from commodity risk. Today, two-thirds of our economic gross margin comes from sources that are counter or non-correlated to gas like retail, capacity revenues, or long-term contracts.

A cash flow machine even in what has become a very difficult commodity cycle that is enhanced by our ability to replenish capital to NRG Yield. What I believe is not fully appreciated, much to our own doing, is the shared and a scalable platform that we have built. Our ability to leverage a common platform to grow our business and realize cost synergies in the process is absolutely unique in this industry. And not only is it unique, but later in the presentation, I will explain why I think it is necessary to succeed.

In summary, my view of the business is that it's simple, focused, and differentiated within the competitive power space.

Turning now to slide eight, I want to take a step back and give you my perspective on the competitive power industry and what I believe it takes to be successful. This industry's currently undergoing a paradigm shift. We are in periods of sustained low natural gas prices, low growth that has flowed in most markets except Texas and the Gulf Coast. Behind the metered technologies are coming on to the grid changing traditional dispatch, market growth are focused on reliability, particularly in the face of retirements, renewables continue to enter the market as regulation focuses on limiting emissions from conventional power.

Being a pure IPP player is no longer enough to succeed in the market today, and definitely not tomorrow. A company that can successfully navigate all the risks and changes in the competitive power industry is one that is diversified, not only in terms of its generation portfolio, but also in terms of its business lines.

It is too easy for any one fuel type or any one business line to experience turmoil or disruption in the current shifting market. As I mentioned before, the operational platform has become a value differentiator, and to a great extent, a source of incremental revenue. Operational excellence is always non-negotiable regardless of the industry, but in ours building an operational platform that enables economies of scale is even more fundamental.

For NRG, this operational platform has become a differentiated means of margin enhancement as complementary businesses intersect and create opportunities for companies who straddle different markets.

But this is just a foundation. In the competitive power industry, companies need to remain leveraged to the upside by constantly assessing the market and the economic viability of opportunities to grow the businesses in a disciplined manner as markets evolve. For me, this means investing in areas where you can have a competitive advantage. It does not mean trying to be everything to everyone.

Last, I believe financial discipline needs to be a top priority for companies in our sector. It is not prudent to take a my opic approach to managing the balance sheet and capital allocation. These decisions must be made on a portfolio level, looking at all parts of the business, and aligning decision making with current market opportunities.

So how do we stock [sic] up against these principles? I have already stressed how pleased I am with the operational execution across the business within NRG. We have made some great strides in diversifying our business and revenues to protect us from low natural gas and power prices. At the same time, we remain well-positioned for growth, looking for low-cost development opportunities and to monetize assets through our strategic relationship with NRG Yield. These unique attributes position NRG for sustained success in the industry.

As you saw on the earlier slides, we have identified cost control and financial discipline as one of our key opportunities for improvement. While we have already begun a period of cost savings, I still believe we can do more. And I am actively working with the team to uncover new opportunities.

Our other area of focus will be in how we approach capital allocation and how we manage our capital structure. I want to make sure that our capital decisions fit with the current and near-term market cycles. We plan to be transparent in our capital allocation and there should be no head scratching when it comes to how we deploy capital.

And on that note, our focus right now needs to be on deleveraging the business to ensure we stay ahead of this market cycle, so we can take advantage of the opportunities that will result from it. We have already made significant progress and we will continue to do so until we see market conditions change.

As we adjust these costs, NRG operates a large and well-diversified integrated portfolio with assets that are environmentally well-controlled. While it is important to have a good foundation, there is no one-size-fits-all approach when it comes to regional dynamics.

On slide nine, we outline what I refer to as our go-to-market strategy that reflects each of our region, specific trends and market dynamics. In the East region, it's all about reliability or capacity revenues. We are seeing system operators support for capacity products that reward reliability and performance, particularly, in the face of

retirements and weather events such as the polar vortex. For example, in the first capacity performance auction in PJM, we cleared close to 90% of our fleet and increased capacity revenue by 80% over the next three years.

We are about to finish the repositioning of our portfolio to shift our margin mix from energy to capacity via fuel conversions, which reduces operating costs significantly and environmental retrofits to maintain a cheap option on key assets to capitalize on higher power prices. In the Gulf, we continue to benefit from our integrated platform in this low-priced environment where our Retail operation continues to overperform.

Let me just raise on our Retail business in Texas is virtually impossible to replicate due to its scale and linkage with generation. We have demonstrated the value of our Retail franchise for the past seven years with 2015 being our best yeary et. This is a key differentiator of ours and one that we will continue to focus on and grow.

Our generation fleet has the scale and environmental controls needed to sustain this weak price environment, where we should see further supply rationalization. At the same time, there is still the potential for the market to self-correct and be enhanced by improvements in market structure and [ph] fixed (15:40) pricing.

The West region is a story of renewables and distributed resources, and maintaining a capacity fleet that supports the grid given the intermittent nature of these resources. There is a need for quick-start, well-located assets, and that is exactly what NRG has been successful in the market; securing contracted assets and developing sites in favorable locations that can then be monetized through NRGY ield providing us a long-term dividend payment.

So far, we have developed over 1,800 megawatts of quick-start generation, and won nearly 800 megawatts of repowering at our Carlsbad and Puente sites. We have been successful in growing our renewable and distribute the portfolio, and with the reintegration of the renewables group into NRG, this will continue to be a growth area.

Now turning to slide 10, we remain focused on streamlining the organization. I am pleased with our efforts in taking close to \$350 million in costs out of the system, but I am not satisfied, and we continue to look for more. So, today, I am announcing an accelerated timeline for our target cost savings of \$150 million under our for NRG continuous improvement process, which has yielded so many benefits across the organization over the years. We expect this EBITDA-accretive cost savings to be realized through end of 2017.

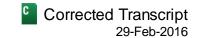
Additionally, we continue to prune our portfolio to bring incremental capital back into the company. We have executed on \$138 million in asset sale thus far, and are on track with our \$500 million target.

Last, we are nearing the completion of our current generation fleet modernization program, which reduces our CapEx commitment by nearly \$650 million in 2017, providing us additional flexibility on capital allocation in the next five years.

Moving on to slide 11, I know there has been a lot of questions about my perspective on renewables and how this relates to the GreenCo process that we announced late last year. Let me be clear, as the CEO of not only the largest competitive generation owner in the country, but also one of the largest renewable companies, I recognize that this market represents a significant development opportunity given state renewable targets, customer needs, our competencies and financial incentives. And it is one in which we must participate.

However, I am committed to ensuring that our efforts in this area match our skills and capabilities and are executed in a way that is value-creating to our shareholders. I'm mindful of what has and continues to be a very deliberate process around GreenCo to determine the best way to create value in these business areas. So let me summarize where we are now.

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First, from here on out, we will no longer refer to GreenCo as described in our September update call. As we think about the individual business strategies moving forward, it no longer makes sense to group them under one headline. Not all renewable businesses are viewed the same in terms of [ph] feet (19:21) and value for NRG.

Today, I'm announcing the reintegration of our traditional NRG business. Everything but the utility-scale since that was never part of the GreenCo process back into the company to ensure we maintain our advantaged position and skills to participate in the changing landscape of the power industry. It is important to recognize that many of our C&I customers expect us to be able to integrate renewables on and offsite. Said another way, our efforts in renewables will mirror the strengths of our integrated platform. And when augmented by our partnership with NRG Yield, our renewables business, which is net cash positive on a full-year basis, does not require permanent capital from NRG.

In addition, the reintegration of NRG Renew will not cause any change to our financial guidance. I am also pleased to announce that NRG and NRG Yield have reallocated \$50 million in previously committed cash equity from the residential solar partnership to the business renewable partnership. This change reinforces our alignment with NRG Yield with mutual focus in renewable energy development.

Finally, as you will note on the slide, we are in active negotiations around strategic transactions for Home Solar and EV go, so my comments will be limited. I do expect to complete this process in the second quarter.

Turning on to slide 12, I want to walk you through our revised approach to the NRG dividend. The dividend was launched in 2012 for several reasons: to better highlight the value of our contracted assets, to enable ownership by dividend restricted income funds, and to add Yield support. Today, our world looks much different than it'd been in 2012. We now have a delivered dividend paying vehicle in NRG Yield to highlight the value of contracted generation, and the extreme volatility in the IPP sector has mitigated our ability to realize Yield support.

And so it is our fundamental view that a static dividend approach is not an appropriate use of capital given the deep cyclical nature of our sector. With that, we are reducing the dividend to \$0.12 a share from \$0.58 a share or to about 1% yield.

I want to be crystal clear that this reduction is not due to balance sheet concerns, it is simply aligning our dividend approach with our broader focus on adaptability while, at the same time, maintaining a differentiated platform that appeals to a broad range of investors and creating shareholder value through all commodity, credit and development cycles.

Moving to slide 13, this is one of the most important topics of today's call. My core fundamental view on capital allocation is to stay focused on what we want to become. However, given the deep cyclical nature of the sector, we must first ensure the robustness of our balance sheet when deploying capital. We are proactively taking the necessary steps to not only leave no doubt about our strength during this cycle, but also to take advantage of opportunities that arise during market dislocations.

Kirk will discuss in more detail the specifics, but I want to offer three takeaways. One, the nearing conclusion of our large capital reinvestment program provides us the latitude to effectively harvest strong free cash flows through our asset optimization program, as I believe we have a good line of sight on market prices and environmental requirements at least through the end of the decade.

Next, paying down debt is fundamental as it assures our equity holders that NRG has the flexibility to create strong returns for them when the market recovers, and it assures our customers a stronger counterparty. My goal is to create no doubt in the strength of our balance sheet. So at this time, maintaining our current target ratio of

4.25 times corporate debt to corporate EBITDA gives us ample headroom to our bond covenants, and it is consistent with our credit ratings.

Last, I remain committed to returning cash to shareholders when we feel that our capital structure is strong enough to allow for flexibility in the event of a prolonged commodity and capital market downturn. I ask that you don't take our focus on deleveraging in 2016 as an indication that NRG has turned away from returning capital to shareholders. Rather, I think of it as assuring that our shareholders can have confidence that NRG will be in a strong position to benefit from opportunities and better market conditions.

I will now turn it over to Kirk for the financial review.

Kirkland B. Andrews

Executive Vice President and Chief Financial Officer

Thank you, Mauricio, and good morning, everyone. Beginning with the financial summary on slide 15, NRG delivered a total of \$3.34 billion in adjusted EBITDA, and \$1.127 billion in free cash flow before growth in 2015. Our 2015 results highlight the benefits and resilience of our integrated platform as the low-commodity price environment helped Home Retail deliver \$739 million in adjusted EBITDA, exceeding our original 2015 guidance for that segment by more than 20%.

Business and Renew achieved \$1.881 billion in EBITDA for the year, while NRG Yield, which was aided by robust wind conditions in California late in the fourth quarter, contributed \$720 million.

NRG completed \$786 million in dropdowns to NRGY ield in 2015, helping expand capital available for allocation and allowing us to return over \$1.3 billion to stakeholders. \$628 million of this capital was returned to shareholders, including the repurchase of approximately 7% of shares outstanding.

Having shifted our capital allocation focus late in 2015, since November and through this past month, NRG has retired approximately \$700 million in unsecured debt, including over \$400 million at the NRG level and \$274 million at GenOn. Our reduced unsecured debt balances will also help increase recurring cash flow with over \$50 million in annualized interest savings realized so far as a result of these efforts.

I'd also like to briefly address one element of our 2015 results outside of EBITDA and free cash flow. That is the non-cash impairment charges we took in the fourth quarter. On an annual basis, we test our long-lived assets and goodwill for potential impairments. Given the prolonged low commodity price outlook, we adjusted our long-term view of power prices which resulted in a non-cash impairment charge of approximately \$5.1 billion, consisting of a write-down of certain fixed assets as well as goodwill. Due to the lack of robust forward prices in ERCOT, this charge is primarily related to impairments of our two coal plants in that market as well as goodwill related to the 2006 acquisition of Texas GenCo of which these two coal plants were a part.

Based on the robust commodity price outlook at the time of the acquisition, we allocated a substantial portion of the Texas GenCo purchase price to the coal plants with minimal value allocated to the gas plants. And although since that time the Texas GenCo portfolio has delivered over \$8.5 billion of unlevered free cash flow and provided the platform for our expansion into retail with the acquisition of Reliant in 2009, the outlook in the ERCOT market has, nonetheless, shifted substantially, currently favoring gas over coal.

The impairment of our two ERCOT coal plants aligns the book value of these assets with their forward cash flow profile as implied by the current market environment. And while the shift in market dynamics also implies the

value of our gas portfolio in Texas now substantially exceeds its book value, as many of you are aware, accounting rules permit only the write-down of asset book values and do not permit a write-up.

These impairment charges also resulted in cumulative net income for the prior three-year period falling below the threshold prescribed for a valuation allowance against our net deferred tax asset balance largely associated with NRG's tax NOLs. As a result, our one-time fourth quarter charges also include a \$3 billion non-cash charge to tax expense resulting from a contra-assetentry on NRG's balance sheet as required under GAAP as a valuation allowance offsetting our net deferred tax asset balance. That said, this accounting charge has no bearing on our ability to utilize our NOLs against future tax able income, and we continue to fully expect to do so.

Finally, turning to our 2016 guidance, we are reaffirming the previously announced guidance ranges for adjusted EBITDA and free cash flow before growth, which as Mauricio indicated earlier, reflect our expectations for consolidated 2016 results including Business Renewables, which was previously part of GreenCo. A point of clarification: Business Renewables is NRG's commercial and industrial distributed solar business. Our utility-scale renewable assets were not part of the GreenCo business previously excluded from our guidance.

Turning to slide 16, I'd like to briefly summarize our capital allocation progress in 2015 focusing on the NRG level, which excludes cash and capital projects at various excluded subsidiaries, primarily GenOn and NRG Yield. Total NRG level capital available through 2015 was \$1.7 billion as shown on the left of the slide.

Capital available at NRG includes three components. First, NRG level excess cash at the end of 2014, which is basically cash and cash equivalents less our \$700 million minimum cash liquidity reserve, net of any cash collateral posted as of the year-end. Second, the portion of our consolidated free cash flow before growth at the NRG level which is in 2015 was just over \$800 million, and finally, during 2015, as I mentioned earlier, NRG received \$786 million in proceeds from NRG Yield, which comprises the third component of capital available.

During 2015, NRG level capital allocated totaled approximately \$1.2 billion with more than half of that amount returned to our shareholders. Having shifted our focus late in the year toward debt reduction, we ended 2015 by retiring \$246 million of principal across various maturities of NRG's unsecured notes, which significantly expanded the reduction of corporate debt beyond the amortization of our term-loan facility. And as I mentioned earlier, we continued that deleveraging process through the first two months of the year, which I'll address more comprehensively when we turn to 2016 capital allocation in a moment.

The remaining \$312 million was allocated toward growth investments. Importantly, this amount represents a reduction of over \$450 million versus our original growth investments forecast provided on our first quarter 2015 earnings call. At that time, we projected approximately \$960 million in consolidated growth investments with nearly \$800 million of that amount expected at the NRG level. This reduction in NRG level spend was the result of both the slower pace of Home Solar as well as the elimination of other growth investments.

Turning to our 2016 NRG level capital allocation plans on slide 17 and building on the delevering progress we've made since November, 2016 will see a more significant shift towards further debt reduction, leaving no doubt that our balance sheet strength and credit ratios will remain resilient even if the current low commodity prices continue beyond the current year.

We expect approximately \$1.5 billion of capital available for allocation at the NRG level in 2016, which again represents excess capital beyond our minimum cash balance reserve for liquidity just further supplemented by our \$2.5 billion credit facility. 2016 capital available for allocation consists of the excess cash balance at the NRG level at year-end 2015 plus the midpoint of our NRG level free cash flow before growth guidance and expected proceeds from dropdowns to NRG Yield of approximately \$125 million in 2016.

These expected dropdown proceeds consist of the substantial portion of what remains under our Residential Solar and Business Renewables or DG partnerships at NRG Yield and represents the return of the portion of our 2016 growth investments toward these two businesses. This month, in order to align the size of these two partnerships with NRG strategic priorities, we have reached an agreement with NRG Yield to shift the amount of capital between Home Solar and the Business Renewables partnerships.

As a result, the Home Solar partnership was reduced by \$50 million to \$100 million with a corresponding \$50 million increase to the Business Renewables partnership, reflecting the more robust and reliable pipeline of Business Renewables, which has now been reintegrated within NRG.

We expect to allocate approximately 75% of our 2016 NRG level capital or over \$1 billion towards further debt reduction in 2016. This consists of ongoing term loan amortization as well as over \$150 million in NRG corporate debt already retired year-to-date.

We plan to supplement this deleveraging in two ways. First, we'll allocate \$600 million of capital toward NRG debt retirement through open market purchases or tenders. And second, being mindful of our next NRG bond maturity in 2018, which is now approximately \$1 billion in principal outstanding, and the backdrop of the current dislocation to high-yield market, we will reserve an additional \$325 million toward the retirement of our 2018 notes in connection with the coincident refinancing of the balance when market conditions are more favorable.

While our current priority is to ensure an efficient retirement and refinancing of our 2018 notes, as conditions evolve, we will continue to evaluate the best use of this debt reduction capital and may choose to allocate it toward different maturities should this alternative prove more favorable. In any event, we expect this capital to ultimately be allocated towards corporate debt reduction in order to meaningfully advance our efforts to further strengthen our balance sheet and ensure adherence to our target balance sheet metrics even through an extended low cycle and commodity prices.

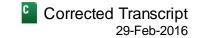
As Mauricio indicated earlier, we have now adjusted our dividend rate to a level consistent with both our capital allocation priorities and the cyclical and capital-intensive nature of our business. And while the current depressed level of our share price undoubtedly represents a compelling return opportunity, we believe it is prudent to continue our progress in right-sizing corporate debt and strengthening ratios, which will enable us the flexibility to capitalize on value-enhancing opportunities for shareholders.

Such opportunities are only made truly compelling by first ensuring the strength of the balance sheet, which supports them. For 2016, we expect just over \$300 million of growth investments consisting primarily of our PH Robinson peaker project, Carbon 360, and our commitments pursuant to the California EV go settlement.

During 2016, we are also focused on executing on opportunities to further expand capital available for allocation including \$250 million of non-recourse financing included as part of our Reset announcement last year. As I indicated in our third quarter call, we are now fully prepared to launch this financing when market conditions are more favorable.

In addition, we continue to expect the next utility-scale dropdown offer to NRGY ield to be our remaining stake in CVSR and plan to offer this Yield in 2016. We are currently exploring with Yield the best means to efficiently finance this dropdown to assist Yield in prudently managing its liquidity while continuing to replenish capital to NRG. I expect we'll have more to share with you on the timing and intended structure later this year.

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And finally, turning to slide 18, in light of our significant deleveraging progress, and having provided an expanded look at our 2016 capital allocation plan, I'd like to update the information we provided last quarter regarding NRG's capital structure and 2016 corporate credit metrics. Fo cusing on the recourse debt at the NRG level, which prior to deleveraging, we had expected to be approximately \$8.8 billion as of year -end 2016. On our third quarter call, we indicated our intention to reduce that debt by at least \$500 million. Having completed half of this objective during the fourth quarter alone, we ended 2015 with just over \$8.5 billion in recourse debt.

Since then and through February, we've completed an additional \$171 million in debt reduction as shown on the far right column of the slide. As a result, based on the midpoint of our guidance and our implied 2016 corporate debt to corporate EBITDA ratio is already nearly in line with our 4.25 times target.

However, our goal is to maintain adherence to that target in 2017 and beyond, taking into account the possibility of sustaining low commodity prices. This objective drives our continued focus on further debt reduction over the course of 2016. As I indicated previously in reviewing 2016 capital allocation, we expect to further reduce corporate debt by at least another \$600 million this year.

Taking that additional deleveraging into account, we are on track to drive corporate debt below \$8 billion by the end of the year, which would place our corporate-debt-to-corporate-EBITDA ratio at approximately 4 times. And finally, factoring on in the effect of releasing the \$325 million of additional capital, we have currently reserved for further reducing our 2018 maturity, that 2016 ratio would be reduced to 3.8 times. One way to consider that number is that it allows us to maintain adherence to our 4.25 times target ratio even if corporate EBITDA were to be reduced by approximately \$200 million as a result of sustaining low commodity prices.

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

Mauricio Gutierrez

President and CEO

Thank you, Kirk, and we have taken a lot of time this morning, so may be just end with our priorities for 2016 on slide 20. We have the right portfolio and the right platform to succeed in this environment. And with the further strengthening of our balance sheet, we will be in a great position to seize opportunities during this challenging market and greatly benefit when it turns around. I look forward to the next phase of NRG.

Thank you. And, operator, let's open the lines now for Q&A.

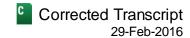
QUESTION AND ANSWER SECTION

may begin.
Greg Gordon Evercore ISI
Thanks. Good morning, guys. A few questions. I'll start with the detailed ones. So I just want to be clear on page 10, when you talk about the \$150 million of EBITDA by year-end 2017, should we assume that that's an aspiration to improveyour run rate EBITDA by that amount?
Mauricio Gutierrez President and CEO
Correct.
Greg Gordon Evercore ISI
Or is that just a cumulative impact on EBITDA of \$150 million?
Mauricio Gutierrez President and CEO
No. Good morning, Greg, and no, the objective here is to make it a recurring \$150 million cost reduction that will impact EBITDA directly.
Greg Gordon Evercore ISI
Great. Thanks. And on page 17, when you talk about the CVSR and non-recourse financing below the lines, but those are not included in your available capital, so should you be successful in achieving those that would be accretive?
Mauricio Gutierrez President and CEO
That's correct. Those would be incremental to capital available for allocation, Greg.
Greg Gordon Evercore ISI
Okay. And that leads me to my big picture question, Mauricio. So the first thing that happened after you took over the CEO role was we saw that in terms of the capital allocation position, is we saw that you cleared a new power plant in the New England auction, which was a little bit disconcerting to investors who were looking for capital allocations program that was more focused on shrinking the balance sheet. Obviously, that's the core message that you're giving us today. So can you characterize – if you were to, for instance, free up this incremental dropdown money and non-course financing, how do you think about each incremental dollar for capital allocation going forward? And how do you characterize what you're doing in New England in the context of the message you're

 $\textbf{Operator:} Thankyou. \ [Operator Instructions] \ Our \ first \ question \ is \ from \ Greg \ Gordon \ with \ Evercore \ ISI. \ You \ and \ Single \ Greg \ Gordon \ with \ Evercore \ ISI. \ You \ Greg \ Gordon \ with \ Evercore \ ISI. \ You \ Greg \ Gordon \ with \ Evercore \ ISI. \ You \ Greg \ Gordon \ with \ Evercore \ ISI. \ You \ Greg \ Greg$

giving us today?

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Mauricio Gutierrez

President and CEO

Yes. No, thank you, Greg. And I understand that that was the first news and the timing with the New England capacity auction is something that I don't control. Let me just start by providing you my general take on capital allocation, and then I'll go into the specifics of Canal.

As you can see from all the actions that we're taking today, one of my key priorities, the first 90 days of being the CEO was to focus on capital allocation. First, being mindful and aware of the current commodity cycle that we have today; and then second, the dislocation that we have in our capital markets. It was important to me to afford us the maximum flexibility when deploying capital and to exert absolute financial discipline.

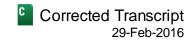
I already talked about the actions that we're taking. One on deleveraging and strengthening our balance sheet and ensuring that we go through this cycle with a strong position to capitalize on opportunities, more importantly, that we're ready when the market turns around; two, the recalibration of the dividend; and then three is the focus on cost savings and streamlining the cost structure on the organization.

So when I think about Canal, it is not a capital allocation decision for 2016. It's a capital allocation decision that we will make in 2018, and at that point, we will evaluate the current environment and in on that perspective, then we'll make the determination what is the best use of our capital. But I want to make sure that we continue to generating low cost options at good returns given the opportunities that we had to lock for seven years a very constructive capacity prices.

And as I told you in the prepared remarks, our focus in the Northeast, and particularly, in New England is focus on capacity revenues. Canal is a dual-fuel peaker that is needed in that market, have good returns and it's a capital allocation decision that we will make not today, where we are focusing all our attention in strengthening the balance sheet, one in two years.

Greg Gordon Evercore ISI	Q
All right. Thanks, Mauricio. Good luck, guys.	
Mauricio Gutierrez President and CEO	A
Thank you, Greg.	
Operator : Thankyou. Our next question is from Julien Dumoulin-Smith w	vith UBS. You may begin.
Julien Dumoulin-Smith UBS Securities LLC	Q
Hi. Good morning. Congratulations, Mauricio, Kevin.	
Mauricio Gutierrez President and CEO	A
Thank you, Julien. Good morning.	

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Julien Dumoulin-Smith

UBS Securities LLC

So perhaps, first to follow up on Greg's last question on capital allocation. Can you elaborate on your latest thinking on the wholesale portfolio itself? Obviously, Texas has been under a bit of strain. How do you think about reinvesting in your existing asset portfolio and timing for rationalization if you continue to see current forwards manifest themselves?

Mauricio Gutierrez

President and CEO

Yes, Julien. So well, first of all, we are actually in the last year of what I consider a high watermark with respect to reinvesting in our portfolio. After acquiring GenOn and EME, we increased our portfolio significantly to close to 50,000 megawatts. We went through a process where we optimized that portfolio through fuel conversions and environmental retrofits. So, as you know, we have been executing that plan and this year is the last of that.

What I expect in the next couple of years is really to harvest on that investment. All the market dynamics that we were expecting when we made those investments are playing out, particularly, around reliability and capacity. But all three Northeast markets whether it's PJM through capacity performance New England and New York, we're moving towards that. We saw that during the polar vortex. We acted upon and it's playing out the way we thought it was going to play out.

Now with respect to other parts of the country, you know that I will exert absolute financial discipline when it comes to the profitability of our assets. If it's not economically viable, we will shut them down just like we have done in the past and just like we're doing today in New York. If the market conditions don't support our generation portfolio, we will take action on it. But we need to also take into consideration not only the current state of the commodity cycle but also the prospective opportunities that we see.

Julien Dumoulin-Smith

UBS Securities LLC

Got it. Excellent. And then, coming back to what you were just talking about, the expansion with GenOn and EME, how do you think about options in GenOn here? I mean, obviously, it's a dynamic situation, but you've paid down some debt there with some cash on hand. What do you think about next steps and the timing of that?

Mauricio Gutierrez

President and CEO

Right. Look, I mean, Julien, most of the bulk of the GenOn portfolio is in PJM. We value significantly our strategic position in the Northeast, in particular in the PJM area. But what I will tell you is in the spirit of streamlining our organization, that applies to streamlining our capital structure. I would like to see that. But we will only do it if it is add value and not having a negative impact on our credit profile. And that's the option that we're going to continue to maintain going forward.

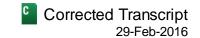
Kirk, do you have any additional comments?

Kirkland B. Andrews

Executive Vice President and Chief Financial Officer

Sure. I mean, first of all, I agree with that. Obviously, we've taken an important step obviously towards deleveraging, as you acknowledged, Julien. But as I've indicated it in my past remarks at various conferences and one-on-ones, that order of magnitude is certainly helpful and necessary, but not sufficient in order to bring about

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right-sizing that balance sheet. We're mindful certainly we've got some near-term maturities at GenOn. We're focused on that as part and parcel of why we went at the delevering that we did.

And as you saw in Mauricio's remarks rather, we have continuation of our assets on program, which, as we've indicated previously going back to the Reset that's focused on the Northeast. So we'd expect it's more likely that that would probably come out of the GenOn complex, which would enhance liquidity. But as the year progresses, certainly I would believe 2016 is a key inflection point given those loan maturities. And we're mindful of the options, obviously, continuing to delever through the open market purchases as we've done before. We recognize that we've got some secured debt capacity there; that provides us some alternative as well.

So what I would tell you is that as the year unfolds, I would expect you to hear more from us in terms of what we plan on executing there, and we're hopeful in terms of addressing and right-sizing the capital structure. But to end by reiterating what Mauricio said: we're only going to do that being mindful of preserving the integrity of the NRG balance sheet in the process.

Julien Dumoulin-Smith UBS Securities LLC	Q
Great, guys. Thankyou.	
Operator : Thankyou. Our next question is from Jonathan Arnold	with Deutsche Bank. You may begin.
Jonathan Philip Arnold Deutsche Bank Securities, Inc.	Q
Well, good morning, guys.	
Mauricio Gutierrez President and CEO	A
Hey. Good morning, Jonathan.	
Jonathan Philip Arnold Deutsche Bank Securities, Inc.	Q
One quick one for Mauricio, I think when you talked about the divid inappropriate in the context of the reduction, but could you just clar from this lower level? Is it – just stays here as a token to allow Yield grow it modestly overtime?	ify what we should be expecting going forward
Mauricio Gutierrez President and CEO	A
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Yes. No, Jonathan, first of all, the actions that we're taking on the dividend -- I guess two main reasons. One, I think this level is consistent with just the nature of our industry, capital-intensive and cyclical. But secondly, when I looked at the current dividend that we had and the underlying premises or principles that we use to implement it in 2012, a lot of them are not valid anymore.

If you recall, when we announced the dividend back then, it was to highlight the value of contracted assets. Since then, we've created NRGY ield. We already talked about the —one of the objectives was the Yield support and in this current market environment and with the level of volatility that we're seeing in the stocks, it really doesn't accomplish that objective.

So when I put the two together, one, the nature of our industry and, two, some of the principles that we had when we initiated, is just inconsistent. I think what you should expect is this number is the right number today, and it affords us the maximum flexibility for capital deployment and capital allocation. And that is my assessment right now on the dividend.

Jonathan Philip Arnold

Deutsche Bank Securities. Inc.

Q

Okay. Makes sense. And just another topic. You've obviously been streamlining management structure as part of the cost reductions, et cetera. Can you just maybe give us a little more insight into what some of the key changes have been, where you are in that process, are they largely behind you now, and just some of the operational changes may have gone on?

Mauricio Gutierrez

President and CEO

Δ

Yeah, Julien (sic) [Jonathan] (52:01), look, I mean, I think with respect to the streamlining the organization, we started at the end of last year. We went through significant efforts to reduce the cost structure. And over the past three months, I have continued with that effort on rationalizing and focusing the organization into our core strengths. And as I articulated already in my remarks, focusing on what I think is the core value of NRG, which is putting together generation and retail and the touch points around it.

So I am very comfortable today with the management team that I have. This is an area that I am going to continue evaluating in the weeks to come. And I thinkyou should expect from me additional announcements as I go to even further streamlining of our businesses, particularly as we go through the outcome of the GreenCo process.

Jonathan Philip Arnold

Deutsche Bank Securities, Inc.



Okay. Great. Thank you very much.

Operator: Thank you. Our next question is from Michael Lapides for Goldman Sachs. You may begin.

Michael Lapides

Goldman Sachs & Co.



Hey, guys. Two questions, one capital structure-related. Just curious, you've announced a lot of debt reduction at the NRG level for 2016. Curious what your thoughts are about debt reduction targets at the GenOn level in 2016. The only reason I asked that is you highlight the NRG debt maturity coming in 2018, but obviously, GenOn has some, too, and that some of the growth for NRG, meaning the Canal expansion that just cleared or even the Mandalay repairing that has a contract, those are actually assets owned within the GenOn box. So just curious about the balance between debt reduction at GenOn and some of those growth projects of assets that are at the GenOn box that are actually part of NRG Inc.'s growth trajectory.

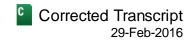
Mauricio Gutierrez

President and CEO



Good morning, Michael. And let me just handle it to Kirk to answer the first part of the GenOn question, and I will take the next.

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Kirkland B. Andrews

Executive Vice President and Chief Financial Officer

Sure. Thanks, Mauricio, Michael, first of all, on the capital structure, as I said in addressing Julien's question, we've obviously begun to make progress in terms of delevering. That's been our confidence in doing that. We're mindful of balancing, maintaining adequate liquidity at GenOn with the need to obviously attack the capital structure the same time, which is why the asset sale process obviously kick-started that. We got a head start on it at the end of the year having announced a couple of asset sales, and we are moving forward obviously to close the second of those two and continuing to focus on completing the remaining \$500 million or the remainder of the \$500 million that we announced on the Reset, which as I indicated to Julien, given the fact that we were very clear about the fact that we expect those assets still to be in the Northeast, the expectation — the knock-on expectation certainly is that that would continue to be the GenOn level.

So we'd use the proceeds of those asset sales to continue deploy towards deleveraging. And as we move through the year, we're mindful of that 2017 maturity, which is why supplemented by those asset sales as I indicated also to Julien's question, we're focused on the best means comprehensively to use the options at our disposal. Not only asset sales, but obviously we've got some secured debt capacity there that we're mindful of. So, all I can tell you is that we progressed through the year. We're going to focus on those alternatives in the best means possible as I said, though, always being mindful of preserving the integrity of the balance sheet of the NRG given the non-recourse nature of the GenOn subsidiary which will continue to be the case.

Michael Lapides

Goldman Sachs & Co.

Got it.

Mauricio Gutierrez

President and CEO

Michael, with respect to your second part of the question, what I will say is that we're going to continue developing options to grow the portfolio. When we have long-term contracts, we're going to do it in close partnership with NRG Yield to continue replenishing capital. When it doesn't have the profile to be able to be dropped down, that's not a capital allocation decision that we need to make today, and we're going to evaluate it when we have to actually deploy the capital. But I think it is important to continue to generate these projects in the context of growing our portfolio perhaps at good economics.

Michael Lapides

Goldman Sachs & Co.

Got it. And one follow-on, Texas related. Just curious our view is that coal plants in Texas are struggling to have cash breakeven right now, and even more importantly nuclear plants are generating limited cash flow, maybe positive but limited. At what point do you start considering coal retirement in ERCOT?

Mauricio Gutierrez

President and CEO

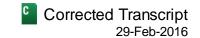
Well, that's a great question, Michael, and so let me give you my perspective on it. The current market in Texas has been very disappointed despite what I consider as still pretty strong fundamentals, strong demand and a price signal that doesn't incentivize new-build economics even though we have seen some what I can say that out of not economical entry. When I look at our portfolio, particularly Parish, Limestone and STP, they are very large in scale. They're environmentally controlled, and I would say that they're probably one of the most cost advantaged base load plants or coal and nuclear plants in the state.

We have identified what we believe is the least competitive assets in the supply stack when it comes to coal. And we believe that if the market continues to be at these levels, it will not be possible to sustain the operation of some of these assets. So that's why I think there's going to be a supply rationalization in the immediate term, and we should see a recalibration of the market.

I feel comfortable right now with the three of our base load plants, but I think we have a pretty good track record. In terms of if and when these plants are not economic and the prospects of these plants are not positive, we will act upon. And we have done that in other regions, and there is no reason why we wouldn't do it in Texas. But right now, still not the time, and I think the supply stack will react before we get to that point.

Michael Lapides Goldman Sachs & Co.	Q
Got it. Thank you, Mauricio. Thanks, Kirk, for taking my questions.	
Mauricio Gutierrez President and CEO	A
Thank you.	
Kirkland B. Andrews Executive Vice President and Chief Financial Officer	A
Thank you, Michael.	
Operator : Thankyou. Our next question is from Steve Fleishman with	Wolfe Research. You may begin.
Steve Fleishman Wolfe Research LLC	Q
Yeah. Hi. Good morning.	
Mauricio Gutierrez President and CEO	A
Hey. Good morning, Steve.	
Steve Fleishman Wolfe Research LLC	Q
The \$513 million of available capital at year-end that you're using in 20 levels? And if so, what cash do you have kind of available beyond that?	16, is that above kind of your normal cash
Mauricio Gutierrez President and CEO	A
It is, Steve, and I'll let Kirk give you specific details, but this is above the and GenOn.	e cash reserve that we have for both NRG
Kirkland B. Andrews Executive Vice President and Chief Financial Officer	A

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Sure. And this was – good morning, Steve. This was one of the reasons why I think in a couple points in my prepared remarks I made specific reference to contextualize capital available for allocation which we consider to be a cash surplus versus cash on the balance sheet. And so when we calculate that, we start with the minimum cash balance that we reserve at the NRG level. So we set aside \$700 million for liquidity.

Now, part of that liquidity is what we need for cash collateral postings, for example. So as we post cash collateral, we consider that a utilization of the minimum cash reserve. So whatever we deducted any given time, think about it as \$7 00 million of minimum cash minus the amount of cash collateral we posted.

Comprehensively and this is outside of capital available for allocation, we focus on liquidity separately. So liquidity is that \$700 million of minimum cash at the NRG level plus the \$2.5 billion corporate credit facility. That's separate and apart from what we consider excess capital which is what that \$513 million that you referred to represents. Does that help?

Steve Fleishman

Wolfe Research LLC

Yeah. I think so. One other question just on NRG Yield. Kind of, Mauricio, as you thought about NRG Yield, what is your view of kind of the long-term strategy around it? And if it stays at a relatively depressed stock price, what are your options?

Mauricio Gutierrez

President and CEO

Yes, Steve. Well, I mean I will answer it from the NRG standpoint and we're going to have the NRGY ield call in about 30 minutes. So let me just say that the relationship between NRG and NRG Yield is, there's a lot of synergies and it's the symbiotic relationship. It's of great importance to NRG. This is a way for us to access low cost of capital, to replenish our capital particularly on the development front in this type of commodity cycle.

We need to have a good development platform for NRGY ield to have full-year line of sight in terms of the growth and the potential drop-downs that we have. That will benefit NRGY ield. And a healthier NRGY ield is good for NRG in terms of our ability to stay competitive in developing new sites. So that's kind of my take on it and I want to be very careful that I give you the answer from kind of the NRG perspective, and we can go into more detail when we go through the NRGY ield call.

Steve Fleishman

Wolfe Research LLC

Okay. Thank you.

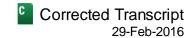
Operator: Thank you. We have time for one more caller. Our last question is from Neel Mitra with Tudor, Pickering. You may begin.

Neel Mitra

Tudor, Pickering, Holt & Co. Securities, Inc.

Hi. Good morning. I just had a follow-up question on the ERCOT coal power plant. Are there any opportunities to renegotiate the transport agreements or lower your PRB coal cost so that those plants are more cost advantaged at this point?

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Mauricio Gutierrez

President and CEO

Yeah. Good morning, Neel, and I will discipline myself to pass the mic to Chris Moser, who's the Head of Commercial Operations, although under my watch as COO, I renegotiated a number of rail contracts. They have been good partners in this commodity cycle downturn. So, but Chris, what are your thoughts on it?

Chris Moser

Senior Vice President, Commercial Operations, NRG Energy, Inc.

No, I think that's fair. I think we continue to work with our coal supplier partners both in the mines, the coal, the coal miners, and the railroad company as well to make sure that we add to the plant's competitiveness to the extent that we can. They, as Mauricio just alluded to, have been good partners with us so far and we continue to look forward to working with them in the future.

Neel Mitra

Tudor, Pickering, Holt & Co. Securities, Inc.

Okay. Great. Thank you.

Mauricio Gutierrez

President and CEO

Thank you and I recognize that you may have a lot more questions. We will get to them, and Kevin and the IR team will be available for any follow-ups, but unfortunately we have a hard stop. We got to get the NRG Yield call ongoing. So, thank you and I look forward to continue this conversation. Thank you, operator.

Operator: Ladies and gentlemen, this concludes today's conference, Thank you for your participation. Have a wonderful day.

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