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NRG Energy, Inc. (NRG)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the NRG Energy, Inc. Fourth Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Kevin Cole, Head of Investor Relations.

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

Thank you, Josh. Good morning and welcome to NRG Energy's fourth quarter 2022 earnings call. This morning's call will be 45 minutes in length and is being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

Please note that today's discussion may contain forward looking statements which are based upon 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 a reconciliation to the most directly comparable GAAP measures, please refer to today's presentation.

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

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

Thank you, Kevin. And good morning, everyone, and thank you for your interest in NRG. I'm joined this morning by Alberto Fornaro, our Chief Financial Officer. And also on the call and available for questions, we have Elizabeth Killinger, Head of Home; Rob Gaudette, Head of Business and Market Ops, and Chris Moser, Head of Competitive Markets and Policy.

Starting on slide 4 with our key messages for today's presentation. We have made significant progress in advancing our strategic priorities in 2022. And while our financial results were lower than expected, our business is well-positioned in 2023. Today we are reaffirming our 2023 financial guidance ranges. The Vivint Smart Home acquisition is on track to close by the end of the first quarter. Today, we are providing further disclosures around revenue synergies to ensure you have additional tools to properly value the transaction. Finally, the core of NRG is strong, supported by favorable fundamentals. The acquisition of Vivint enhances our ability to achieve our free cash flow before growth per share targets.

Now turning to Slide 5 for the financial and operational results of 2022. Beginning with our scorecard for the year, we executed well across our strategic priorities. We delivered our second consecutive year of record safety performance. For me, it always starts and ends with the well-being of our people. I want to thank everyone at NRG for staying focused during a challenging year. Our retail group took deliberate actions to manage price volatility and delivered record customer retention and extended the average term of a new customer to two years. Also our bad debt remained below historical levels despite higher inflation and tightening financial conditions. Our plant operations performance was below expectations, primarily impacted by the outage at W.A. Parish right before the summer. We are taking additional steps to strengthen our supply and mitigate operational risk during scarcity conditions. The Direct Energy integration is nearing completion and on track to deliver our run rate synergy targets in 2023. We executed on our test and learn program during the year, which culminated in the announcement of the Vivint Smart Home acquisition. We also continue our portfolio optimization with 2 gigawatts of coal retirements and asset sales.

Finally, on capital allocation, we executed $645 million of share repurchases out of the $1 billion program. We will execute the remaining amount when cash is available and when we have full visibility to achieve our targeted credit metrics. We also increased our dividend by 8%. Since it was re-established in 2020, we have raised our dividend more than 25% and returned almost a $1 billion to shareholders this way. I view our dividend as an integral part of our return of capital policy.

Moving to financial results, we delivered $435 million of adjusted EBITDA in the fourth quarter, bringing our 2022 full year results to $1.754 billion, below expectations. For the fourth quarter, we highlighted in our last earnings call that reaching the bottom end of the financial guidance included a little over $100 million of optimization opportunities, specifically making our natural gas units available to capture value during periods of high power prices. This opportunity did not materialize as mild weather during the quarter kept power prices much lower than expected. We were also impacted by Winter Storm Elliott in late December, primarily from PJM capacity performance payments, where we risk adjusted downward our bonus payments pending additional information from PJM. Alberto will provide more information on our financial results.

Turning to slide 6 for our 2023 outlook, we are reaffirming our 2023 financial guidance. We see improving fundamentals in our business including more stable supply costs driven by lower natural gas prices, less supply chain issues for coal and chemicals, more favorable retail market conditions in the East and economic resilience in our customer base. In the East, we see opportunity for customer growth, given rising rates from public utilities, enabling competitive retailers to demonstrate the value of our services to customers on an equal playing field. In Texas, the Public Utility Commission proposed market designs improvements that will result in more dispatchable generation and greater reliability of the ERCOT grid. I want to commend the Texas Governor's Office, Legislature, PUCT and ERCOT for taking swift action to enhance grid resilience while ensuring the integrity of the competitive market.

Also, retail competition will open in Lubbock, Texas, in the fall, a city with more than 100,000 electric customers. We look forward to having the opportunity to earn and serve customers in that area later this year.

In 2023, we will continue executing on our strategic priorities, focusing on strengthening our core business while growing adjacent products and services, as you can see on the right hand side of the slide. We continue our focus on optimizing our portfolio to better serve our customers. To that effect, we are targeting $500 million in net cash proceeds from asset sales by the end of the year.

Having completed our test and learn phase in 2022, we are now focused on the next phase of our strategic roadmap, growing the business. This includes completing the Direct Energy integration and increasing the number of customers that purchased multiple products from us. Today, we have sold more than one product to 15% of our customers. We are making good progress on cross-selling and we'll provide additional disclosures as we integrate Vivint. To support this growth, we will continue to strengthen our power supply by extending our capital-light PPA program for renewables to dispatchable generation at some of our existing sites.

Finally, we are on track to close Vivint in the first quarter with all regulatory approvals received and no shareholder vote required. We expect to close financing soon and have begun day one integration efforts.

I want to provide additional insights on how Vivint enhances our core energy platform and brings additional capabilities at scale on slide 7.

Vivint is a leader in Smart Home Solutions with nearly 2 million highly engaged customers with an average life of nine years. Their system brings together automation, security and residential solar under a single proprietary technology and data platform. This business is highly complementary to our core energy offering. We will use their Smart Home ecosystem to connect all our currently isolated products and services, including grid power, Batteries, EVs and other products into a seamless experience that is highly engaging and personalized. This engagement will provide tremendous insights into pricing, customer experience and new solutions that create greater brand loyalty and longer average customer lifetime. As we leverage this Smart Home ecosystem, we expect to optimize energy demand inside the home, providing valuable services to the wholesale markets. In other words, NRG will be the bridge between the home and energy markets with a unique ability to optimize and monetize value between the two. Vivint will also complement our existing energy product offerings and sales channels by adding home automation, security and residential solar at scale, including a proven acquisition engine with a solid track record of growth and nearly 2 million customers.

On the right hand side of the slide is the virtuous cycle that we have discussed in the past. By leveraging our existing platform, we can access meaningful cost synergies. This economic advantage, coupled with better insights and more personalization, result in a better experience for our customers. All of this translates into a deeper understanding of how consumers interact with their homes, additional margin and better retention on our core products. And then the cycle repeats as we grow, creating a more valuable business.

Now I want to disclose the valuable opportunity that this combination represents on slide 8. We have identified three main areas of value. Growing and optimizing our network of customers, leveraging the platform to achieve cost synergies and improving the value of our core energy customers. With respect to the growth opportunity, we are targeting $300 million of incremental free cash flow before growth by 2025. We are encouraged by the preliminary work we have done on both sets of customers and look forward to fully optimize once the transaction closes. As you can see on the left hand side of the slide, there is some overlap in our core energy markets, but it's relatively small. This is important because Vivint already has teams ready to be deployed in our core energy markets and because the addressable market opportunity for new customers will be even greater. We expect to achieve this growth target in several ways as we target Tier 1 customers, which we define as single-family, homeowners with high credit scores within select urban areas. We will focus on two immediate and actionable opportunities. One, cross-selling existing products into our combined customer network of 7.5 million customers. Two, selling bundle offers to new customers outside of our network, representing 15 million potential households.

In addition, we will grow Vivint organically in line with historical levels. These opportunities will be enhanced by optimizing our combined sales channels and best practices, leveraging the strength of both NRG and Vivint. The capital required to achieve this growth is expected to range $500 million to $600 million over the next three years. For cost synergies, we have identified $100 million to be achieved by 2025, primarily from combining two public companies. For these, we expect $160 million of onetime cost to achieve. Finally, on our existing core energy customers, cross-selling means we can have direct access to our customers in the East and the opportunity to expand margin and extend customer lifetime value. In total, we see a $400 million opportunity by 2025 and a larger opportunity beyond given the size of the Smart Home addressable market. I am confident in our ability to deliver these targets as we have a strong history of integration and synergy achievement.

Just to remind you, since 2016, we have achieved significant value on integration synergies, cost reductions and enhancement programs. This effort will be led by the same team as the transformation plan and Direct Energy integration. I look forward to providing you a more comprehensive update later this year during our Investor Day.

Now turning to slide 9, we want to give you an update on our pro forma outlook and how the Vivint transaction supports our growth targets. On the left hand side of the slide is our free cash flow before growth pro forma walk from 2023 to 2025, including the expected growth contribution from Vivint that we just discussed on the previous slide. This illustrates the earnings power of the company and will be further unpacked once the transaction is closed.

On the right hand side of the slide is the expected capital allocation through 2025. As you can see, the combined platform provides the financial flexibility to have a balanced approach between growth and return of capital while maintaining a strong balance sheet. The acquisition of Vivint and more specifically the growth opportunity that it represents will better support our per share growth target, while materially high-grading our earnings quality and customer lifetime value.

So with that, I will pass it over to Alberto for the financial review.

Alberto Fornaro

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

Thank you, Mauricio. I will now turn to slide 11 for a review of 2022 results. During our third quarter call, we stated that higher profitability in the fourth quarter would enable us to deliver an adjusted EBITDA at the bottom of our 2022 full-year guidance range. To realize this, we mentioned that the higher profitability was partly related to insurance proceeds for Limestone Unit 1 and Parish Unit 8, additional synergies and other cost reduction. And the remaining from the opportunity to generate additional gross margin from the planned utilization of our gas fleet.

Our forecasting process is based on the forward market curves. And at the time the forward curves included higher power prices for the fourth quarter, which would make the plan utilization of the gas fleet economical. Unfortunately, prices in the fourth quarter fell significantly below short of expectations. On-peak prices in Texas were 45% below expectation, resulting in lower profitability from our generation fleet.

Near the end of December, Winter Storm Elliott brought a sharp reduction in temperature for a short time on December 23 and 24. During the storm, load surge was faster and significantly higher than the upper level of the expected range in both ERCOT and PJM for several hours. This drove spikes in power prices. Our gas generation fleet in Texas which was largely unutilized in the fourth quarter was called into action. Given the significant gap between actual and expected load, the fleet was unable to completely match the additional demand. As a result, we [ph] purchased (00:18:02) additional power in the market at higher price. In the East, higher load led to a PJM reliability call for our units without any notice. Several of our larger units were in reserve status at the start of the event and have longer startup times which led to capacity performance negative impact given the lack of notice.

The lower than expected prices at the beginning of the quarter, coupled with the impact of the winter storm, drove unfavorable variances to our EBITDA expectation. The fourth quarter adjusted EBITDA of $435 million was below our implied guidance by $196 million. We estimated that the lower prices experienced for most of Q4 reduced the expected contribution of our gas generation by approximately $115 million. We also estimated that Winter Storm Elliott caused approximately $80 million in negative impact. This was primarily a result of the net impact of capacity performance in PJM as well as increased power purchases in ERCOT, that were partially offset by an expected capacity performance bonus for the Cottonwood plant. When we look at the full year, adjusted EBITDA of $1.754 billion fell short of the midpoint of higher guidance at the beginning of 2022 by $346 million. There were two main driver that impacted this result. First, by the extended outage at Parish Unit 8 with $220 million of loss margin that was partially offset by business interruption proceeds of $52 million. And second, the estimated $80 million impact of Winter Storm Elliott. There was also an incremental $44 million of pension expenses resulting from reduced prices of financial assets in the second half of the year and some increased O&M expenses. Additional drivers include the $15 million of reduced earnings for the divestiture of Watson and $16 million of growth expenses.

In 2022, free cash flow before growth came in at $568 million, with the deficit to our third quarter guidance driven primarily by the shortfall in EBITDA and two working capital drivers. First, the insurance proceeds for Parish and Limestone that were forecasted for 2022, were accrued in the fourth quarter but received in January 2023, resulting at the end of the year in a $100 million increased receivables.

Second, working capital is an additional negative impact due to falling gas prices in the quarter, which more rapidly impacted the accounts payables than the account receivables.

Turning our attention to 2023, we are reaffirming our full year guidance for both adjusted EBITDA and free cash flow before growth.

Before we review the 2023 cash available for allocation, I would like to provide updates on Winter Storm Uri and Direct Energy synergies. The 2021 net impact of Winter Storm Uri was $380 million. During 2022, we were able to increase mitigant proceeds and reduce the total net cost to approximately $259 million. For future years, there will still be some cost of recoveries associated with Uri, but we deem the amount to be immaterial. And we will no longer update to these figures.

For Direct Energy synergies, we achieved a total of $84 million of additional synergies in 2022, with related integration cost of $74 million, bringing the total synergy achieved from the acquisition to $259 million. We are confident that we can achieve the remaining synergies which are related to specific projects that will be completed in 2023. Therefore, we will no longer provide quarterly updates on our Direct Energy synergy progress, but we will provide the final summary at year end.

Now turning to slide 12 for a brief update on our 2023 capital allocation. Moving left to right with blue shading indicating updates, excess cash from 2022 is equal to $40 million at year-end, plus the $209 million in proceeds from the sales of Astoria, which totals $249 million in the bottom left.

Next for Vivint, we continue to utilize its 2022 pro forma full year figures provided in our December call. Full-year free cash flow below growth of $1,730 million includes NRG standalone guidance of $1,620 million plus pro-forma $110 million for Vivint. This includes the expected impact from debt financing. In addition, we included a $300 million of cash available from Vivint.

Next, [indiscernible] (00:23:27), we are targeting $500 million of leverage in neutral net inflow from asset sales. The next investments are higher by $29 million following earlier realization or previously included Winter Storm Uri mitigant in 2022.

Now moving to the far right bar, we expect a total of $434 million available for future allocation. This will fund the remaining share repurchase program upon fully visibility of the achieving of our 2023 target credit metrics which are detailed on the next slide.

Now quickly turning to slide 13. We remain committed to a strong balance sheet. This slide has not changed since our last update. We are focused on achieving 2023 target credit metrics and investment grade credit metrics by late 2025 to 2026 through both debt reduction and growth.

With that, I'll turn the call back over to Mauricio.

Mauricio Gutierrez

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

Thank you Alberto. On slide 15, I want to briefly outline our 2023 priorities and expectations. First and foremost is delivering on our core energy business goals. We will continue to strengthen our integrated platform and further optimize our portfolio. Second, we are focused on closing the Vivint acquisition, integrating the business and delivering on our synergy commitments. Finally, we will stay disciplined on our capital allocation plan as we execute on our strategic priorities. I am excited about this next phase of our evolution and look forward to providing you a comprehensive update at our Investor Day later this year. So with that, I want to thank you for your time and interest in NRG. Josh, we're ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Julien Dumoulin-Smith with Bank of America. You may proceed.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Hey. Good morning, team. Thanks for the opportunity and the time. Well done. Listen, I...

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

A

Hey. Good morning, Julien.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Hey, good morning, team. Listen, I wanted to talk to you guys about this 2025 outlook and just clarify this. As it pertains to the original conversation around call it $12.50 a share of FCF, is this an implicit increase in expectations or roughly in the same ballpark. As I look at sort of what's implied on the numerator and denominator, it seems like it could be a slight increase there. I just want to come back and clarify that as best you guys see it. And I have a quick follow-up.

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

A

Yes. I mean, well, let me see if I understand the question. The pro forma that we showed here puts us in line with the free cash flow before growth targets that we provided you at Investor Day of 15% to 20%. So, as you mentioned, what Vivint does is complements our share buyback and capital allocation program with a very attractive growth engine that we articulated in the call today. Now, the Vivint transaction, I'm expecting that it's going to produce $400 million of free cash flow before growth on top of the 2023 pro forma or guidance for NRG. So, when I think about the 2025 pro forma, I will say that I'm very comfortable with the NRG pro forma. Now that we have communicated the contribution of Vivint, I will tell you that, we have got pretty good line of sight to deliver on that commitment of 15% to 20% growth.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Excellent. And just clarifying that you've – I know you've discussed at the Analyst Day here. Would you expect to roll that 2025 forward at the time of the Analyst Day or could we get something sooner with the close? And then considering that close, just super quickly if I can, we've seen some litigation out there around SPACs and what is possible, if you will, in recent days. Can you clarify how that may be impacting the process itself at this point just if you don't mind for a moment?

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

A

Yeah. So, I think what you should expect is our Investor Day will provide you the five-year plan that will go beyond 2025. I think that's the right time to articulate it. Obviously, in the close and in subsequent weeks after the close and most likely the earnings call, we will provide additional clarity in 2023 with respect to the Vivint, right. So, with respect to the litigation that you're mentioning on the SPAC, we actually have looked at that, evaluated it and we see very little risk in terms of closing the transaction. So, keep in mind that this is not only for our industry, this is for all SPACs across all industry. And I see these more as just a clean up process than anything else. So, the risk of impacting the closing of the transaction, I would say, is minimal.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Excellent. All right, guys. I'll leave it there. Thank you so much. Good luck.

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

A

Thank you, Julien.

Operator: Thank you. Our next question comes from Angie Storozynski with Seaport. You may proceed.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Thank you. So, maybe first on the 2023 guidance. I mean, it seems like it's a pretty good setup for the year. I mean, power prices have fallen, you should have an advantage with gaining market share on the retail side, especially in the East, given the collapse in power prices and natural gas prices, there's been an improvement in working capital. There is – the cost to replace the power for the W.A. Parish outage should have come down and yet you kept the guidance range. So, what's the offset to these positive drivers?

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

A

Yes. No, Angie, I mean, I'm glad that you went down the list because when I think about 2023, I would say that is more conservative than we have been in 2022. Not only from what we control. So, if you think about the characteristics of our plants, the assumptions that we use in our forecasts are more conservative. We have also remember – now this is the second year that we have increased maintenance CapEx around our plants. So, we expect greater reliability on them.

And there is a lot of tailwinds on our guidance. You already mentioned the dynamics in the East where prices for the default service, utility providers, are much higher. And I think we're going to have a great opportunity to gain market share. With a falling gas prices that creates really good environment for us for managing our retail margins. So, all of this is positive.

Now, let's just – it's only February, right? So I want to make sure that we see at least a couple of months and we have greater visibility on the rest of the year before we can provide you additional adjustments. But I think it's fair to say that I feel very confident that we can achieve our guidance and perhaps we are erring on the conservative side with a number. But I think it is – I think it's prudent given the type of volatility and extreme weather that we have seen in the past couple of years.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

That's good, especially after two difficult years. Okay. And then on the PJM Capacity penalties. So, it's my understanding that the disclosures that the generation companies were provided by PJM on Friday only talked about penalties. So, any sort of bonus capacity payments haven't been disclosed or calculated. So – so, I know that, that's a 2022 issue. But just talk to us about how you accounted for those offsets to the penalties on the capacity side.

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

Sure, I'll let Alberto. Alberto?

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

Yeah. No, I mean, it is – from the penalty side, it is relatively simple because we have considered based on our records, what is the potential penalties and take those into account. On the bonus side, there's a lot of variables, including potential bankruptcy that can change the amount that will be distributed. And therefore, what we have done with the limited information available, we have estimated what is the best case scenario, the worst case scenario. And we have chosen a level we are comfortable and therefore we have – at the end of the day, risk adjusted the bonus for that we could get at the end of this process. We will know more in the next months, but we are comfortable with what we have done.

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

Yeah. So, I think it's fair to say that penalties, we have taken all of them into consideration. And bonuses, we need more information from PJM. So, we have risk adjusted downward.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

Okay. And then lastly, so when you announced Vivint, there was a plan to execute on share buybacks, a pretty meaningful, $300 million – I think $360 million. I mean, looking at the share count, you haven't done it. I understand that there is a plan for 2023 to finish that $1 billion of the share buyback allocation. So, just talk to me about the timing, why it hasn't happened yet. Were you waiting for the proceeds from Astoria? Is it somewhat of a reflection of the weak free cash flow generation for 2022? And again, just roughly about when we should expect those buybacks to happen.

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

Yes. No, I mean, that's correct. So, my expectation that it will happen this year. And obviously, being very consistent with our capital allocation principles. We want to focus first on achieving our credit metrics and then we will – once we have the visibility in terms of achieving that. And obviously, as we get cash proceeds in the door throughout the year, we will be executing on the share repurchases. So, my commitment to everybody is that we will execute them, but we need to have first assurances that we meet our commitment on credit metrics and that we have the cash available. So, that's how we're thinking about it.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

So, it's not like the fact that you deferred the buybacks. It's no – in no way does that reduce the amount of financing that you will need to raise for the Vivint's transaction.

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

A

No.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Okay. Thank you.

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

A

Thank you, Angie.

Operator: Thank you. Our next question comes from David Arcaro with Morgan Stanley. You may proceed.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Hi, good morning. Thanks for taking my question.

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

A

Good morning, David.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

I was wondering if you could elaborate on what assets might be considered for sale and what the potential timing might look like in terms of executing any processes related to that?

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

A

Yes, David. So, as you know, we actually have been optimizing our portfolio now for a number of years. I think we have a pretty good track record on doing that. And the way I think about it is, you have core assets and non-core assets, right? So, core assets are, whatever helps us best serve our customers and if there's an asset that doesn't do that function, then it becomes a non-core asset. And we'll look at monetizing that. There is a second set of things that if there is an asset that is more valuable in somebody else's business, we will definitely take a look at that and evaluate all the options.

So, what I can tell you is this is an ongoing process. We sold and monetized some assets last year. We're going to do that. What I wanted today was to provide you more specificity around the amount that we are targeting and that this will be executed in throughout 2023. In terms of timing, obviously, these will require two people coming to an agreement. And – but we will be updating you as soon as we have available information.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks. That's helpful. And then I was wondering if you could speak a bit to just fleet reliability and resilience here. Wondering just if you could talk to the strategy to improve the risk profile of the business during extreme heat and cold events? Are there further investments that you could make in your fleet to improve their resilience or more you could do to beef up the supply side of the equation?

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

A

Yes, David. So, when you think about the reliability and resiliency, I actually – if you take a step back and you think about our supply strategy to serve our retail load, I think about it in three big buckets. The first one is the generation that we own. The second one is, medium term PPAs and then the third one is obviously, you complement that with market purchases. Today, we are roughly 50% of the megawatts that we serve we supply with our own generation, 50% with third party either [ph] polls (00:37:58) or purchases.

So, what we have done on our own generation is twofold. Number one, we have been a little bit more conservative when we run our forecast and what we use to hedge our load in terms of plant characteristics. And that gives us a little bit more cushions, so we're self-insuring. The second thing is we have actually invested additional maintenance CapEx to increase the reliability on the units, specifically in areas where we have seen issues during scarcity conditions. So, those two things really mitigate what I describe as the operational risk on our units. The other tool, we actually trade this operational risk for counterparty risk, credit risk. So, while it's perhaps more firmer in terms of the megawatts, it also – we have to monitor the health of the entities that we're transacting with. So, what I like about this approach is that we're diversifying our risk. That it's not a all generation, all operational risk. So, we actually diversified the risk. And this one was one of the big lessons during Winter Storm Uri. So, I feel very comfortable, the risk adjustments that we have made.

And then lastly, in terms of hedging our load, we're being a little bit more conservative. So, we're leaning perhaps longer than we have done in the past. And to make sure that we manage some of the scarcity, periods where we see higher load. But obviously, you cannot de-risk completely the business because it would be cost prohibitive. So, we have been very, very intentional, and very thoughtful about it.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got it. That makes sense. Thanks so much.

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

A

Thank you, David.

Operator: Thank you. Our final question comes from Steve Fleishman with Wolfe Research. You may proceed.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Thanks. Appreciate the time. Just a question on...

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

A

Hi, Steve.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Hi Mauricio. Question on the 2023 kind of base pre-Vivint. What are you assuming in there? I guess, obviously, you're expecting a big recovery from 2022 and some of the issues just, but what are you assuming in there for outages, any lingering outages and then the related insurance money? And then also on – are you including any asset sale gains or losses in the guidance for 2023, I think you've sold Astoria already at a decent price?

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

A

Yes. So...

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Could you talk about that?

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

A

Yes. So, we already sold Astoria. And let me just give you my view on the 2023 guidance, which I started talking to Angie about it, and then I'll pass it onto Alberto to tell you exactly what's in and out. But the way to think about the 2023, Steve, is a more conservative forecast than we have done in the past, both from an operational characteristics of the power plants, how we're managing our retail load. But also because of the dynamics that existed in 2022 that don't exist today, like if you remember, we had the supply chain issues on coal and chemicals that has abated for the most part. We have falling to stable natural gas prices now, that allows us to better manage our retail margins. We have an environment in the East where we feel very comfortable that we can gain market share on our retail business.

So, I think in general, I would say that 2023 is a lot more conservative. The guidance is right on top of what we provided to you back at Investor Day when you adjust for asset sales, which we provided you the bridge back then. So, you – actually in the in the Investor Day deck, you have the ins and outs given the portfolio optimization that we have done and we're literally on top of where we should have been.

So, two things. One, I feel very confident that this is in line with what we provided you and two, that we're taking a little bit more of a conservative approach in terms of the number. Obviously, we will update you throughout the year. But just keep in mind that, we're just at the beginning of the year, but I don't know if there's anything else that we need to add I mean [indiscernible] (00:43:05).

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah, just Parish, Parish like outage cost insurance and asset sale [indiscernible] (00:43:12)...

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

A

Yeah. So, with respect to...

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Could you identify what's in the guidance for those?

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

A

Yeah. So in the guidance, obviously we have Parish that is not in the first half of the year because it's on outage. What I will tell you on Parish and I think that's probably the largest risk. I – the progress that we have made is pretty significant. As a matter of fact, I think just last week, we had the generator now on site and has been lifted and put in the deck. So, we're making really, really good progress on what I'm seeing today. I'm confident that we'll come back [ph] up (00:43:49) time. Obviously, the commercial team is monitoring very closely that with the plant, if there is any delays or there is any acceleration, that we either mitigate the risk in the market or that we take advantage, if it comes in earlier, but in fact that – it's already embedded in guidance. Alberto?

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

A

Yeah. Just to be a little bit more specific, Steve, regarding Parish Unit 8 we said that there is no impact in 2023 and the reason is because of the impact of the unavailability of the plant was match by business insurance. We have received a little bit more than the business insurance in 2022. However, we are recalculating the margin and net-net, it's still completely hedged by the loss margin is hedged by what we are going to receive as insurance and therefore no change compared to the prior scenario which was in the third quarter when we provided the guidance.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

And then asset sales?

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

A

[indiscernible] (00:45:01) factor Astoria basically, which has happened in January. And we are [indiscernible] (00:45:08) for the moment until there are news, obviously, we are not adjusting.

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

A

But it's already – Astoria has already been taken into consideration.

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

A

Astoria has been considered because it was already...

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay.

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

Should have happened at the end of 2022. It happened just a few days after 2023 and we took this into consideration in our guidance.

Steve Fleishman
Analyst, Wolfe Research LLC
Q

Okay. And how much is that?

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

It's fairly small the – the full impact. Consider that – consider that we have the tool for the remaining short period. So, it's very, very small.

Steve Fleishman
Analyst, Wolfe Research LLC
Q

Okay. Great. Thank you. Appreciate it. So, it's really the core business. Yes. Thanks.

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

Yes. Thank you, Steve.

Operator: Thank you. This concludes the Q&A session. I'd now like to turn the call back over to Mauricio Gutierrez for any closing remarks.

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

Thank you. Thank you for your interest in NRG Energy and I look forward to updating you once we close the transaction on Vivint. Thank you.

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