28-Feb-2019

NRG Energy, Inc. (NRG)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. And welcome to the NRG Energy's Fourth Quarter and Full Year 2018 Earnings Call. At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. [Operator Instructions] As a reminder, today's program is being recorded.

And now, I'd like to introduce your host for today's program, Kevin Cole, Head of Investor Relations. Please go ahead sir.

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

Thank you, Jonathan. Good morning and welcome to NRG Energy's fourth quarter and full year 2018 earnings call. This morning's call is being broadcast live over the phone and via webcast which can be located in the Investor section of our website at www.nrg.com under Presentations and Webcasts.

Please note that today's discussion may contain forward-looking statements which are based on assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation as well as risk factors in our SEC filings. We undertake no obligation to update these statements except as required by law.

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

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

Mauricio Gutierrez

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

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

I'd like to start the call by highlighting the three key messages for today's presentation on slide 3. First, we continue to demonstrate the value of integration between Retail and Generation by delivering strong results in 2018 and re-affirming are 2019 guidance.

Second, our core marketing Texas remains the most attractive in the country. Our balance and well-hedged platform along with enhanced summer-readiness programs, positions us to deliver more predictable results.

And third, we continue to demonstrate our discipline on capital allocation by adhering to our stated principles and our commitment to being excellent stewards of your capital. Today, we are announcing a new $1 billion share repurchase program which will bring our total share repurchases in 2018 and 2019 to $2.5 billion.

Moving to slide 4 with the business and financial highlights. On the left-hand side of the slide, you can see our 2018 scorecard. We laid out a very ambitious plan for the year and I am pleased to report that not only did we achieve our goals, but in many cases we exceeded them. I want to recognize and commend the entire NRG team for their persistence, focus, and great execution throughout the year. We achieved our best safety performance ever, our best environmental performance, delivered financial results in the upper half of our guidance, and we completed $1.5 billion of share repurchases.

With respect to our transformation plan, we delivered on all our goals. We exceeded our cost savings target, bringing our total savings to over 90% of our objective. We achieved our credit ratio target of 3 times net debt-to-adjusted EBITDA. And we started to see the impact of our margin enhancement program which will be a focus in 2019.

Also, earlier this month, we closed on the sale of South Central and Carlsbad. With these transactions, we have now successfully completed all identified asset sales, bringing total proceeds to $3 billion under the transformation plan. Outside of this plan, we also closed on the acquisition of XOOM Energy in the second quarter and GenOn fully emerged from bankruptcy in the fourth quarter.

Finally, we hosted our Analyst Day last March, which many of you attended. We outlined our long-term strategy to create significant shareholder value through perfecting our customer-driven integrated power company, built on a portfolio of leading Retail brands and diverse Generation assets.

On the right-hand side of this the slide, I want to provide you with a brief financial update for 2019. First, as a reflection of our confidence in the outlook for our business, we are reaffirming 2019 financial guidance and announcing a new $1 billion share repurchase program. Next, we are announcing up to $600 million reserved for additional deleveraging to achieve investment-grade metrics for our sector. Kirk will discuss this further in his section.

Turning to slide 5, I want to give you an update on our key markets starting with ERCOT. As you all know, ERCOT supply-demand balance is the tightest it has been in many years. The chart on the left shows the reserve margin by year and highlights how much of that reserve is composed of existing generation and how much of it is from new generation. As you can see, it becomes more dependent over time on newbuilds, particularly on wind and solar. For example, in 2020, ERCOT projects a 10% reserve margin. 3.5% coming from existing resources and the rest coming from new wind and solar. Just to be clear, this is equivalent to nearly 14 gigawatts of new renewable capacity that needs to come online in the next 16 months. Any deviation from that will take us back to single digit reserve margins.

This dynamic helped levels to much higher wholesale prices in the near term. But in the medium to long term, prices are still lagging and remain below newbuild economics, making it difficult for developers to justify 20- or 30-year investments. Both the PUCT and ERCOT are aware of this situation and have taken steps to improve the energy-only market to better reflect scarcity conditions in the system. We believe these changes will have an impact on forward prices, helping justify long-term investments necessary to increase the reliability of the system in the long run.

Now, moving to the right side of the slide, for this summer we have further enhanced our readiness programs. I feel good about our position and the steps that we have taken to ensure our business is well positioned for current market conditions. First, let me talk about Retail. Our practice is to have a fully hedged position against our price Retail load. This is made up of not only internal hedges where we cross Generation and Retail, but also through market purchases.

We're also working proactively to educate our residential and business customers by providing them options and tools to manage higher energy bills. Specifically, we have been successful in expanding our demand response capabilities to help them manage load during peak conditions. For Generation, we're working hard during the spring outage season to ensure our units can withstand increased run times given the expectation of high prices. We also purchased outage insurance and plan to maintain Generation length to further protect the platform from real time price volatility, unplanned outages and higher Retail loads.

Last, while our platform today is best positioned to provide more predictable results relative to pure retailers or wholesale generators, we continue to take prudent and measurable steps to further enhance our ERCOT platform. For example, with the expectation of higher volatility in the market, it creates an opportunity to acquire customers at value. And given our scalable customer acquisition engine and now our track record of integrating new businesses, we will be in the lookout for these opportunities in order to grow our business and increase market share.

Now as our Retail business grows, our Generation or supply business must grow with it. We have an opportunity to complement our physical assets with short to medium-term contracts, or PPAs, that better align with our load obligations. This strategy allows us to better serve our customers, improve our position management and it is capital-light. Lastly, we continue to take opportunities to hedge the portfolio at attractive levels beyond 2019. Higher hedge prices allow us to invest in our fleet to achieve increased reliability and increase the predictability of our earnings.

Now let's move to the East on slide 6. Our focus remains on regulatory changes for both capacity and energy markets. In PJM, we remain confident that FERC will protect the integrity of competitive markets while accommodating state clean energy initiatives. Although a timeline for FERC action remains uncertain, we continue to believe a strong MOPR is the simplest and most effective way to reduce the harmful impact of nuclear subsidies on the capacity market.

In New England, we are monitoring fuel security efforts. Although we maintain limited exposure to that ISO, we believe these regulatory changes are designed to improve the current status quo and are positive for fuel security reforms overall.

On the right side of the slide, the chart shows capacity revenues across the Northeast markets. It is important to point out that we have a diversified portfolio in the Northeast, resulting in fairly steady revenues as you can see on the chart.

As we enter 2019 with a renewed sense of purpose to bring the power of energy into people and organizations, it just seems appropriate to provide just a snapshot on our progress and just how far we've come along these past three years in strengthening our business, which has resulted in the remarkable financial flexibility we're enjoying today.

As you can see on the slide 7, the three areas of focus for the company to be successful in the long run were: simplifying and streamline our business; have an appropriate capital structure for our sector; and a disciplined approach to capital allocation.

First, we refocused our business on our core strengths of integrating Retail and Generation. We sold non-core assets or underperforming assets and we right-sized our Generation portfolio to better match our Retail business. Our business today provides more predictable earnings as we integrate two cyclical but offsetting businesses.

Second, we simplified our capital structure with the sale of NRG Yield and the separation of GenOn. We also strengthened our balance sheet by deleveraging and targeting appropriate credit metrics for our sector. For 2019, our total debt will be 69% lower than it was three years ago.

Finally, we have also significantly increased our financial flexibility by improving the amount of EBITDA that we convert to free cash flow. Today, close to $0.70 of every dollar are converted to free cash flow compared to only $0.25 three years ago. We are allocating this capital using a set of clear and transparent principles. As I have said in the past, there will be no surprises when it comes to capital allocation.

So, the bottom line is this. Our company today is stronger than it has ever been and what gets me excited is that the best is still yet to come. We're now a streamlined cash flow machine, that for the first time, have the financial flexibility to create significant and sustainable shareholder value.

Now, let's talk about capital allocation on slide 8. Continuing with the then and now theme, you can see that our capital allocation is directly in line with our roadmap to value creation of stabilize, right-size, and now redefine our business. As you can see on the bar chart, in 2016 and 2017, we stabilized our business through significant deleveraging. If you recall, my first commitment to you three years ago was to leave no doubt in our balance sheet strength and that's where we focus our excess cash.

Then in 2018, we achieved our revised credit metric of 3 times net debt-to-EBITDA, leaving significant excess capital available to either grow our business or return capital to our shareholders. We executed the accretive XOOM Retail transaction and returned just over $1.25 billion of capital to shareholders, reducing our share count by roughly 15%.

Turning to 2019, I want to highlight the steps we're taking to reposition and redefine the company for long term success. First, we're allocating up to $600 million of deleveraging. While three times satisfies our leave no doubt balance sheet objective, we believe targeting investment grade metrics has some benefits. It will lower our cost of capital achieve interest savings and further improve our equity valuation. Again, Kirk will talk more about these in his section. But to be clear, we say up to $600 of deleveraging, even that it can be achieved in two ways, growing EBITDA or reducing debt.

Next, we are announcing a new $1 billion share repurchase program. I believe a predictable cash flow company like ours should regularly return capital to shareholders. As of today, share buybacks are the most efficient and compelling way to return capital to our shareholders, while also maintaining our current $0.12 per share dividend.

Last, and with about a third of our capital uncommitted, we will remain absolutely disciplined in deploying the excess capital, adhering to our capital allocation principles as you can see them on the right side of the page.

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

Kirkland B. Andrews

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

Thank you, Mauricio. Turning to the financial summary on slide 10, NRG finished 2018 with $1.777 billion in adjusted EBITDA and $1.1 billion in free cash flow for growth. In both cases, a 28% increase over 2017.

Retail delivered a robust $952 million in adjusted EBITDA, a $127 million improvement over last year, driven by margin enhancement and cost reduction initiatives, higher usage, the XOOM acquisition, and higher demand response in megawatts sold. Generation EBITDA for 2018 was $825 million, a $261 million increase over 2017, primarily a result of increased power prices in Texas and higher capacity prices in PJM.

These 2018 results reflect the financial contribution from our ongoing businesses and exclude the impact of the sale of the South Central assets which closed in early February for $1 billion in gross proceeds. Under GAAP accounting, South Central is treated as discontinued operations, and is therefore not part of our reported adjusted EBITDA and free cash flow before growth.

The closing of the South Central transaction, when combined with today's announced closing of Carlsbad for $387 million, brings our total asset sale gross proceeds received under the transformation plan to approximately $3 billion.

Turning to the balance sheet. Having met our 2018 debt reduction goals and achieved our target credit metrics originally announced as part of the transformation plan, we are announcing today a revision to our target balance sheet metrics for 2019 and beyond. Our new target balance sheet ranges, which I'll review in greater detail later, are based on credit metrics consistent with investment-grade ratings. We believe achieving these metrics will not only provide benefits to our balance sheet, but also further reinforce the stability of equity cash flows to help drive a more robust valuation metric for our stock.

To ensure we align our 2019 balance sheet metrics with these new ranges, we're reserving up to $600 million of 2019 capital for potential debt reduction. In addition, having completed our $1.5 billion share repurchase program, which was at an average price of $36.24 a share, we're now allocating $1 billion in 2019 capital towards our newly authorized share buyback program, which Mauricio mentioned earlier.

Turning to our final report on 2018 capital allocation on slide 11, changes versus our last update which are highlighted in blue, result primarily from the slight shift in timing of the receipt of the South Central proceeds into early 2019 and the release of the 2018 cash reserve which was used for credit ratio purposes. During 2018, we completed $1.25 billion of our $1.5 billion share repurchase program while the balance of $250 million in repurchases under that program was completed in early 2019. We also received $58 million in net cash from insurance associated with the GenOn settlement which helped offset a portion of our previously allocated settlement payments.

With approximately $0.75 of every dollar of capital allocated in 2018 toward the return of shareholder capital of debt reduction, we ended 2018 with approximately $350 million in excess unallocated capital, which will form the basis of 2019 capital allocation.

I'll review 2019 capital allocation in greater detail in a few moments, but I'd like to turn to an update on our credit metrics including our new targets, which you'll find on slide 12. Looking first in 2018, you'll see that our financial results which reflect the deconsolidation of South Central, combined with our net debt balance inclusive of the South Central proceeds, placed us within our transformation plan target credit ratio of 3 times net debt-to-EBITDA.

Turning to 2019, as indicated earlier, we are revising our target credit metrics to focus on ranges we believe are consistent with investment-grade metrics. Highlighted at the bottom of the 2019 column are these revised target ranges which are 2.5 to 2.75 net debt-to-EBITDA, adjusted cash from operations to net debt of 27.5% to 32.5%, and interest coverage of between 5.5 and 6.5 times. Although we are not targeting a specific credit rating at this time, based on our current Standard & Poor's business risk rating of Fair, our revised targets will place us in line with investment-grade metrics. The chart at the far right of the slide helps illustrate this.

As many of you know, credit rating is a function of two key variables: credit metrics, which is shown on the horizontal axis and business risk on the vertical axis. The shaded gray area represents the approximate inflection point between high-yield and investment-grade based on the relationship between these two variables.

Our objectives here are twofold. First, moving our balance sheet ratios from our previous target to our revised targets, placing these metrics into investment grade territory based on that business risk rating. Second, we will continue to execute in order to demonstrate the cash flow resiliency and reduce risk inherent in our integrated platform which will position us, over time, to earn an improved business rating. The combination of these two should place us on a strong footing to actually move our ratings solidly to investment grade in the future. In other words, should we target the rating in the future, that means solid BBB.

In the near term, these new metrics provide other tangible benefits. By reducing debt, we reduce cash interest which is accretive to free cash flow dollar for dollar due to our abundant NOL balance. This, of course, also improves our conversion factor of EBITDA into free cash flow as well. In addition, by further shrinking our balance sheet, we also strengthen and further reinforce the stability of our equity cash flows, which we believe merits a more robust valuation metric for a lower free cash flow yield.

Finally, we also improve our creditworthiness which may be further enhanced by future ratings increases, making us a stronger counterparty with reduced need for credit support or collateral, as we execute on our asset-light strategy via PPAs in lieu of physical generation. As shown in the 2019 guidance column, reducing debt by an additional $600 million and the associated reduction in interest expense, would place our 2019 ratios near the midpoint of these target ranges. We've reserved up to $600 million in 2019 capital to ensure we will achieve these new targets in 2019.

However, as increasing EBITDA and operating cash flow is an alternative means to achieve these targets as well, the actual amount of debt reduction required may be less than the $600 million we have currently reserved. By way of example and hypothetically, in the event we find a strategically consistent superior return acquisition opportunity later in the year, the first 21/2 turns or so of the EBITDA multiple we pay in such an investment – that would represent what we paid in that investment rather – that would not require additional capital for that first 21/2 turns of the EBITDA, but merely serve to reduce the $600 million we've currently reserved for debt reduction dollar-for-dollar.

Turning to slide 13 for an update on 2019 capital allocation. Having ended 2018 with that $350 million in unallocated capital, we've since supplemented that through the receipt of approximately $1.3 billion in net cash proceeds from the closing of the South Central and Carlsbad transactions. When combined with the midpoint of our 2019 free cash flow guidance, we expect approximately $3 billion in capital available for allocation in 2019.

Our capital allocation announcements today combined with previously committed allocations represent approximately $2.1 billion of 2019 capital allocated or committed. This consists primarily of $665 million in capital toward debt reduction, including up to $600 million deleveraging to achieve our new target credit metrics and $1.25 billion in share repurchases. 2019 share repurchase capital includes both the $1 billion program we announced today plus $250 million of repurchases already completed in 2019, which represents the remaining balance of our $1.5 billion program we announced during 2018.

As shown on the far right side of the slide, we have $872 million of excess 2019 capital to be allocated which we expect to become available over the balance of the year, particularly during the summer months which contribute the bulk of our 2019 free cash flow.

Finally, this quarter, please note we've included in the appendix a few revised slides for your reference, including wholesale open and effective gross margin for 2019 and 2020, as well as some new slides in the presentation summarizing regional capacity revenue. We hope these new disclosures will further enhance your understanding of the drivers of our future financial outlook.

Back to you, Mauricio.

Mauricio Gutierrez

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

Thank you, Kirk. I have a few final remarks on our priorities for the year on slide 15. As always, our top priority is to deliver on our financial and operational objectives. We remain focused on executing on our transformation plan initiatives as we direct our attention to margin enhancement in 2019.

Like I said earlier, our company today is stronger than it has ever been. We're now a streamlined cash flow machine that, for the first time, have the financial flexibility to continue perfecting our platform to make it more balanced and predictable, continue strengthening our balance sheet, and consistently returning capital to shareholders. With these priorities, we believe we have an opportunity to create significant shareholder value in the long term. I am very proud of our progress, and I look forward to the next phase in our journey.

Thank you. And, with that, Jonathan, we're ready to open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question comes from the line of Greg Gordon from Evercore ISI. Your question, please.

Greg Gordon
Analyst, Evercore Group LLC

Q

Hey. Good morning.

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

A

Good morning, Greg.

Greg Gordon
Analyst, Evercore Group LLC

Q

So, obviously the results were great and the outlook for the year is still consistent with your prior expectations and I think the overall cash available for allocation is actually higher on the margin than what most people had expected, which is also good. But can you just talk a little bit more about the decision to allocate more capital to debt reduction, less, therefore being available for further buybacks? And how you come to the conclusion that that over time is more value accretive? Because I think I understand the answer but I'd like to hear it from you guys.

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

A

Yes. So, well Greg, I mean I'll give you a general perspective and then I'll let Kirk get into the specifics of why we think this is the area that represents investment grade type of metrics. And as we have done in the past, we are providing you not just our net debt-to-EBITDA but also some of the cash flow credit metrics because as you all know, we run this business for cash.

In terms of – we outlined the benefits that we see in terms of moving towards a more robust credit metric level, I guess. One, it allows us to have access to a lower cost of capital. It does reduce our interest expense. Importantly, as we move into an asset-light strategy or capital-light strategy to complement our physical assets, it makes us a – it reduces the collateral that we need to post if we enter into these long-term PPAs. And I think it ultimately impacts the valuation of our equity.

So, we took all of these things into consideration to move us from where we – like I said, the leave no doubt level of three times that we felt very comfortable – it was appropriate with the risk profile of our business. As we have continued to evolve our business and we can demonstrate the predictability and stability of it, then we have an opportunity to have, I guess, a more direct impact on the valuation of our stock when you look at all these three things in combination. It's not just our balance sheet, but it's also the opportunity to continue perfecting our platform and returning capital to shareholders in a consistent basis. But Kirk, in terms of specifically these ranges.

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

A

Sure. Greg, what I would start with is really the central focus that we always have, which is we're focused on driving shareholder value. And you could probably list five or six, but I'm going to use three ways to drive that value. I mean, the first one is disciplined capital allocation. That's obviously what we've been focusing on. That's how you build and maintain credibility with our owners at the end of the day. And we obviously plan to continue demonstrating that in 2019 and beyond.

But more tangibly, to state the blunt and the obvious, certainly you can increase value by increasing earnings, growing the earnings, growing it accretively, growing it organically. That's what we're focused on doing. But we're also mindful of the fact that if you can drive the basis on which the stock is valued at the same time, you're driving value in two ways, right. And that helps kind of supercharge the value opportunity you have.

Part of the reason why we're buying back stock today is we see it as a compelling investment. It's a compelling investment just based on traditional valuation metrics in the sector. But we believe we've driven the risk profile of this business down, which should command a sea change in how that reduced business profile is reflected in a more robust valuation metric, as I said before.

One of the ways I think that it is probable to do that is to de-risk further the financial side of the balance sheet, and that's obviously reducing the debt. We've taken a look at different free cash flow yields and correlations with different levels of leverage and credit ratings and there is some pretty compelling evidence across various sectors that – basically indicating a strong correlation between those two.

And so, if we can be successful in driving those metrics down, and ultimately driving that rating up, we believe that's likely to drive more non-traditional investors into the stock who are more used to investing in companies with more robust balance sheets. And when we combine that with the continued demonstration, as I said, of the resilience of our free cash flow, that's the best means to get that second punch, if you will, to drive the stock up. First punch growing the EBITDA, the second driving the metric at which it's valued.

And that was a strange way to answer a balance sheet question with the equity side of the equation; we're talking about deleveraging. I'm happy to talk a little bit more about ratings or interest savings or things like that. But I think that's probably the leading basis on which we're looking at this change in our credit metrics.

Greg Gordon
Analyst, Evercore Group LLC

Q

Yeah. That makes sense to me. I mean, you're trading at an equity free cash flow yield approaching 14% than an unlevered free cash flow yield to the EV that's still close to 12%. And so, just getting a couple of hundred basis points improvement in your free cash flow yield is like another $10 to $15 upside on the share price. So, I – that resonates with me. Thank you.

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

A

Exactly, Greg.

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

A

You got it.

Greg Gordon
Analyst, Evercore Group LLC

Q

It's probably beyond that. So, I'll jump off and go to the back of the queue.

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

A

Thank you, Greg.

Operator: Thank you. Our next question comes from the line of Angie Storozynski from Macquarie. Your question, please?

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

Q

Good morning, guys. So, I have a question about your Retail growth, both the margin expansion on the organic basis and M&A. So, give us a sense where you are tracking versus those margin expansion targets that you gave us at the Analyst Day. And also, given that your peer has just announced a major acquisition or big acquisition, how – and if I understand correctly, you are suggesting that you could actually have an M&A in the Retail business as well – how should we think about the whole Retail component of your EBITDA going forward? Thank you.

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

A

Yes, good morning, Angie. I think you laid out the question well. The way we think about our growth in Retail is two-fold. One, organic, and we've had a lot of success, particularly in the East but also in Texas of growing our business organically. We're targeting anywhere between 2% and 4% annual growth on our business.

And then the second one is through M&A. And in the past, we've said that when you look at our business, although we have made significant strides on rebalancing and right-sizing that portfolio, in the East our Generation business is bigger than our Retail. So, we've been focusing in trying to grow our Retail business in the East.

We believe that perhaps the most actionable and opportunity today is on the Retail side. We've been very, very disciplined in terms of our capital allocation. We have a established platform. So, for the most part, we're looking at acquisitions that – or opportunities that complement that existing platform.

When we think that we can expand the platform like we did with XOOM last year, that allows us to enter into the multilevel marketing, we will do that. But our focus is going to be a very disciplined approach on two things. One is the – meeting the thresholds, the investment thresholds that we have and that we laid out to all of you. And second one is a very realistic view on the earnings potential of these businesses. I think we have an excellent track record in terms of being disciplined in deploying capital and, two, on delivering what we expect this business will deliver or that we have in our valuations.

Now, in terms of our margin enhancement, I mean, the bulk of the margin enhancement is really around our residential Retail business, although Generation and business solutions have some and we have made good progress. What I can tell you is that we have spent the last 18 months working on this; first, identifying our initiatives then investing. And just in 2018, we're starting to see the fruits of this. We met our $30 million margin enhancement target. The bulk of it is going to come in in 2019. That's where we expect the majority of the impact.

So, I'll turn it over to Elizabeth, just to give you a quick update on where we are on our Mass Retail margin enhancement efforts. Elizabeth?

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

A

Sure. Thank you, Mauricio. Hey, Angie. I would summarize a couple of thoughts for you. First on earnings growth, between 2017 and 2018, our Retail business grew by about 15% in earnings. Only 3% of that was from XOOM. And on the customer growth side, we grew about 15%, 445,000 customers. Most of that was from our M&A activity, but we still had 30,000 customers that we grew organically in the business.

So, we have a really strong engine. So far, I'm really pleased with the progress on our margin enhancement plan. You may remember from our Analyst Day, our efforts in the mass side of the business had two primary approaches. One was value expansion and that's from both retaining more customers. So, we've implemented predictive analytics tools and enhanced ones that we already had and had been using. We've improved our customer experience at multiple touch points from billing to customer care to introducing apps that connect customers to more capabilities. And our value efforts give us better insight to match customers and product and maximize both acquisition and existing customer efforts during a pretty high pressure season for us, both with competition and higher supply costs.

And then on the customer growth effort, that is really exciting. We've expanded our channels and our footprint of our face-to-face reach so that we can meet customers where they are with compelling products and services. In the East that looks like, both in electricity and natural gas portfolio, and we've been able to grow that. And we've seen double-digit improvements in our key sales metrics as a result of our growth efforts.

So, we're really excited about the progress we've made and we're looking forward to continuing to deliver in 2019.

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

Q

Thank you. I was just wondering how the growth targets that you laid out on the Analyst Day compare now to your outlook given that there's been probably some increase in the cost to serve load as we saw in 2018. Probably even more so going forward, you do seem to be a bit short power in Texas so I mean, is it just embedded in your projections or should I think that that's actually a drag in your Retail margins going forward?

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

A

Yes. I mean if you think about our margin enhancement, that is independent to commodity price increases. I think the best way that I can characterize our margin enhancement is it just makes our platform better. So, regardless of the – where we are in the cycle now – the reality is when you combine margin enhancement with the dynamic that we're seeing in the commodity prices I mean, yes, perhaps we can potentially mask the impact of margin enhancement. But the way we think about margin enhancement is completely independent from the underlying commodity price. And we are on track.

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

Q

Great, thank you.

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

A

As I said, yeah, we are on track for 2019.

Operator: Thank you. Our next question comes from the line of Abe Azar from Deutsche Bank. Your question, please.

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you, good morning. Congratulations...

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

A

Good morning.

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc.

Q

...on achieving your multiple goals for 2018.

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

A

Thank you, Abe.

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc.

Q

No problem. Looking forward, what do you mean by perfect the customer focus business model in your 2019 scorecard?

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

A

Yes. So, as you know we have gone through a great changes in our portfolio. We right-sized first; we simplified the business by taking some non-core assets or underperforming financial assets. We focused on our Generation Retail integrated business. Then we right-sized it so our Generation portfolio is much better balanced than our Retail. But we still have some regional imbalances for lack of a better word. In the East, our Generation portfolio is bigger than our Retail and in Texas, our Retail business is slightly bigger than our Generation fleet.

So, I think there is an opportunity, one, to better balance those two. That's what I mean by perfecting it. And then number two, while our physical assets right now are the right ones to help us manage load, there is always an opportunity – keep in mind that the customers are going to be determining what is the right mix of the Generation assets that we need. When I say customer-driven integrated platform, I mean it. I mean, the customers are going to determine what kind of supply they want to have, if they are going to be 50% renewable, 75% renewable, 100% green power. So, that's going to inform how we set up our Generation portfolio and there is an opportunity to perfect that. So, that's what I mean by perfecting it.

Now, what it means is, from a practical standpoint, as I said, there is an opportunity right now to continue growing our Retail business both organically and through M&A. But today, I don't see any opportunity that meets our investment thresholds on the Generation side. And that's why we have initiated this capital-light, asset-light strategy, where we can actually contract short-term or medium-term contracts, PPAs, to better manage and perhaps even better align the load obligations that we have. We don't have – it's capital-light because we use developers that have perhaps lower cost of capital than we do and have a different risk profile when it comes to the residual value of these assets. And so, we think it's a better match to help us complement our physical asset position. That's what I mean by perfecting the business.

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. That makes a lot of sense. That's all I have today.

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

A

Thank you, Abe.

Operator: Thank you. Our next question comes from the line of Steve Fleishman from Wolfe Research. Your question, please.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. Hi, good morning. Just a quick question on the credit metrics and investment grade. Do you have any sense on, if you execute on the metrics in 2019, as you've stated, just how long it might take the rating agencies to actually make you investment grade?

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

A

Kirk?

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

A

Sure. Steve, I think that's probably going to be certainly beyond 2019, probably based on the dialogue we've had. Certainly, we've enjoyed a lot of success with the rating agencies in the recent past to get them to upgrade us in the last year. So, as you know and understandably, they tend to be a little bit more lagging. They like to do their homework, come around to the new – both the new business risk profile, as well as the new financial profile. So, I think that's – it's going to take a little time. I think that's fine. It probably will take at least 12 to 18 months before we can get there. And part of that, as I said before, is the reason why we're targeting investment-grade metrics is that's the first step in establishing the platform to get there.

I think realistically speaking – and I alluded to this in my remarks – we need to continue to demonstrate to the agencies as well as our equity investors that strength and resiliency of the platform. Because that's going to be a necessary catalyst over time to get them confident to reduce that business risk. And that's the reason why I'm giving it a little longer timeline, which is completely fine, because it's really going to be the combination of obviously, executing on the delevering, delivering the metrics and then walking that business risk up. We think both of those are really necessary conditions to – if we're going to get to A – here's the investment-grade rating, as I'm sure you're well aware, sitting in the nether region at the BBB- level is not the right place to be.

So, if we're going to take that step and actually target a rating, as I said, we want to be solidly in that range, and that's another reason why that'll take a little bit of time. But I think this puts us on a right path, but I think it's important to get at it soon, so that we continue the background to demonstrate that resiliency, and also at the same time, on the equity side, try to drive that valuation metric tighter on that free cash flow yield. So, I would say 12 to 18 months at a minimum to get through that process.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay. And just one other question, just on the kind of M&A opportunities which it sounds like would be mainly focused in Retail. Just, obviously, there's one transaction that's out there that there's supposedly a competitive process. Is this – is there a broad set of opportunities or is it more limited to one or two that are out there?

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

A

Yes, Steve. I think there is just a limited number of opportunities. I mean, limited in the sense of very large retail books. I think there is going to be a lot of them in terms of small books. But we think of them as day-to-day, we're going to be evaluating these just like we have done in the past and we're going to acquire these small books as a normal course of business.

But on the, let's say, on the slightly bigger because these are not necessarily large transactions, Steve. There's a limited number opportunities and, like I said, we are – we know that we want to participate on these. We have an option to either grow organically or grow through M&A. And just – I mean, we're just trying to be very disciplined. Very disciplined on two fronts: on the way we look at these businesses and the earnings power of these businesses; and secondly, on the value that we pay for these businesses. And the combination of those two are going to – they have to meet our internal thresholds.

So, I mean those are the two things that I guess everybody should be thinking about. What do you expect from this business and what you're willing to pay for this business? And I think we have a pretty good track record in terms of being disciplined on the value side. And we've been very realistic on delivering the earnings potential of these businesses or the earnings that we tell you they're going to deliver.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Thank you.

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

A

Thank you, Steve.

Operator: Thank you. Our next question comes from the line of Julien Dumoulin-Smith from Bank of America Merrill Lynch. Your question, please.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Hey. Good morning. Can you hear me?

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

A

Good morning, Julien.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Hey. So, quick follow-up on the credit side, I just wanted to clarify if the reduction in debt that you're talking about the $600 million – just what point in time do you decide to move forward with it given the use of your term, that you've reserved it in your capital allocation?

And then secondly, let me just get this out of the way now, too. Completely, separately but looking at the new hedge disclosures, can you give us a bit more of an apples-to-apples sense how that looks quarter-over-quarter versus your last set of disclosures? Obviously, you're changing the numerator and denominator a little bit here. So, it's a little fuzzy in the comparison. But I just wanted to understand incrementally, how much more hedged and kind of when you're thinking about the shifts here, anything to note in terms of the composition or how you're thinking about it?

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

A

Yeah. So, let me turn it to Kirk for the credit metrics, and then Chris Moser can talk about the hedge on.

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

A

Hey, Julien. So, as far as the timing here, I think that's really largely going to be governed by getting at this, what I'll call, efficiently from a capital perspective. I mean, if you look at our maturity stack and I'm sort of focused on the unsecured side for a second, given all the successes we've had – as what I often sort of refer to from time to time as we're kicking cans down the road or making hay while the sun shines and continue to refinance things – our nearest maturity is 2024. Not surprisingly, it also happens to be our nearest call window. So, the next call window we have for that – or the first call window which is roughly half the coupon, so call 103 spot 125 – is around May of this year.

So, we're going to go to the unsecured side. I think that's probably the – if you want to call it if you will – the temporal governor there. So that we know we've got a price at which we can attack, not necessarily implying 100% certain that's the direction we're going to go, but that's probably a good way to think about the unsecured side. By the way, I think that maturity is probably about $730 million, so well enough there to satisfy the $600 million.

The best and most efficient from a capital standpoint is on the flip side of the equation. Obviously, we've got a pretty significant term loan. That term loan actually matures sooner, that's a 2023 maturity. That one is available for us to delever at par. So, it probably would be right now, if you put a gun to my head, a combination of those two things. So, that's probably the two buckets we'd look most closely to. But in terms of timing, I'd think about that May inflection point and after as being probably the bulk of that $600 million right now.

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

A

Julien, good morning, Chris here. As far as the hedge disclosures go, listen, we heard from a lot of you that the baseload revenue hedge disclosures we used to do were at best insufficient, and at worst confusing. So, we decided to move to a regional Gen portfolio and the full gross margin. In terms of apples-to-apples, you should think of us as that we've been scale-in sellers in 2020 with a combination of some summer and some around the clock as well.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Got it. Anything else to consider in the context of your hedging? Do you have disproportionate summer or exposure or any kind of – when you think about laying those in – and is it at a premium or discount versus what you've already locked in?

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

A

Yeah. I mean, I think that the summer prices have been up slightly between the last disclosure and now. I wouldn't say materially if we're talking about 2020, so to speak. I think that this summer you've got the low-reserve margins and high prices, but there's plenty of time for GenOn load to prepare for that. It's been a little rainy down there so far. And in the most recent way-too-early weather forecasts, I've seen a little bearish, Texas, in 2019. I mean, it's pretty early to get that, but the first seasonal outlook I saw – I think it was from CWG, I'm trying to remember – had it kind of soft in Texas. I mean, 2020, you've got a whole another year of load growth which, according to the CDR, 2,000 megawatts a year, I mean – and that's peak load growth – going from 74.8 to 76.8. Texas needs some new generation.

A quick call out, I think we're very – we'd like to commend the Public Utilities Commission in Texas for taking the action that they did in terms of adjusting the ORDC out there. I think that's helpful. Obviously, we support a well-functioning market in Texas. We've got way too big an investment down there not to. And I think we're responding in a bunch of different ways. I mean, we've added some reliability work at the plants, working on some load management, and that. And I think that ORDC changes help incent a load response which is nothing but helpful for a functioning market.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Excellent. I agree about the updated hedges. Thank you very much.

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

A

Awesome. Thanks, Julien.

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

A

Thank you, Julien.

Operator: Thank you. Our next question comes from the line of Praful Mehta from Citigroup. Your question, please?

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Thanks so much. Hi, guys.

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

A

Hi, Praful.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Hi. So quickly just on slide 23 again, on the hedge disclosure. It is helpful, I think, to have it this way, so appreciate that. Just wanted to understand, does the chart then imply that for 2020 you're hedged pricing is below the current forward curve because you have a $77 million negative on the mark-to-market? Is that a fair way to read that chart?

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

A

So, I think the way to read that is that we've been scale-in sellers of 2020 as the market has continued to move up.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Got you. So, there is – effectively, the price point at which you're selling or the time of day or the – you're not selling peak – or you're not locking any hedge pricing that is peak. Is that a fair way to...

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

A

No, don't think about it like that. Don't think about it like that. Think about that if we sold peak, the peak has moved up since we've sold it. And if we sold off-peak, the off-peak has moved up since we've sold it. We're marking it against the relevant numbers.

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

A

Yeah. It's a mark-to-market, Praful, calculation. So, it takes into consideration where we – what time of the day or what block of energy we sold in the market and then just marking it against where the last expectation is or where the forward market is.

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

A

Yeah. It doesn't – it's not commenting on we sold off-peak but the peak is up. I mean, it's literally what sales did we make compared to where the market is now. And as you're a scale-in seller on a market that's moving up, you would see some mark-to-market losses which is what you see on that chart.

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

A

And if I can just make a comment because this is – I think we heard loud and clear from our investors – we want to be very transparent in our disclosures. We want to provide disclosures that help you understand better our company and better the financials going forward. So, we believe that moving into this open energy margin with a mark-to-market of all our hedges, not just power hedges, but all our hedges, just helps you better understand the model, the potential – the earnings potential of our company. So, we're going to continue to provide additional disclosures. But right now, we think that this move is a step in the right direction.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Yeah, agreed. And I think the mark-to-market the way you're describing it exactly is the right way for us to make it easier read to so appreciate the disclosure.

And just quickly on the second question, on the credit metrics, now that you're transitioning to a more investment grade profile, is that going to go hand-in-hand with hedge percentages, as in, do you add more flexibility to how much you need to hedge going forward and will that allow you to stay more open if you believe on a fundamental basis that curves don't reflect the true fundamentals in the 2020 or 2021 timeframe?

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

A

Yeah. I think, Praful, what you are – what we – we don't look at the credit or the steps that we're taking on the balance sheet in isolation. I think Kirk already provided a pretty good overview that this is a combination of perfecting our business model and making it more predictable. So, you are just describing what we used to do in the past which was try to make our Generation earnings more predictable. Well, if we're able to now combine it with a more balanced approach to Retail, then we don't have to rely so much on the market. We can just point Generation to Retail.

So one of the key priorities is a more predictable business which – that will improve the assessment of rating agencies on the risk profile of our earnings. The second thing is the balance sheet and all the benefits that Kirk already explained around the balance sheet. And lastly, is consistently returning capital to shareholders. If you think about those three priorities, I think we have a tremendous opportunity given the financial flexibility that we have afforded ourselves to re-rate the stock and to create shareholder value for – long-term shareholder value in in the coming months and years. So it is the combination of all three things that we are looking to enhance the valuation of our equity. I think that's what you should think about. They're all related.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Got you. Fair enough. Thanks so much, guys. Appreciate it.

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

A

Thank you, Praful.

Operator: Thank you. Your next question comes from the line of Michael Lapides from Goldman Sachs. Your question, please.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. One question just on the move to investment grade and then one or two follow-ups. Can you put a cash flow value, like an annual cash flow value of, if you got investment grade, what would that mean in terms of either interest cost savings, reduced collateral or something else? I'm just trying to quantify a little bit of what the free cash flow impact of going from sub-high grade to – going from high yield to high grade.

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

A

All right. Let me take that in two pieces. So, the way I think about it, Michael, and you can tell me if I'm [indiscernible] (57:44) addressing your question. So, step one is that incremental delivering; that creates some cash flow right there. So, rule of thumb, if you're talking about reducing interest with unsecured notes with a coupon of 6%, that $600 million, you're talking about $35 million plus or minus, just a nice round number to the $500 million on an annualized basis, which I think you'll find is about a little less than 2% accretive to the free cash flow.

Over time – and I'm going to emphasize over time because that's the benefit and then the delay that comes with it – of all of the success we've had of extending the maturity stacks. When we go to refinance that debt, I think relative to – some of that's been great – obviously, we're strong BB right now. Kind of rule of thumb, depends on where the markets are, if you think about maybe 25 basis points type of improvement; it could be a little more, it could be a little less, but 25 basis points is probably a decent rule of thumb.

We have to keep in mind also, that one of the things that comes along with moving to investment grade, which by the way is one of the other reasons to go to that strong investment grade if you decide to target a rating, is callable debt is no longer available, right? You're issuing bullets and that's understandable because it tends to be the case that you're a lot closer tied to Treasuries and there'll be less volatility within the interest rate environment. But if you ask me if there's one singular cost I can think about, it's probably that one, not really offset by a benefit on covenants because we've successfully taken most of the covenants on our own secured notes to investment grade-type standards at this point. But again, going back to what I said in the second part of my answer, oh, roughly 25 basis points plus or minus.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. One question on the hedging. The revenue side, I think, relatively easy to kind of back it, trying to back into that. But just trying to think through the fuel, so can you remind us for the Texas plants, what's the mix of 8800 versus 8400 versus lignite in terms of the coal being used and kind of similar question for the Midwest Gen plants?

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

A

So, I don't think we've broken 8800 and 8400 before, but you can assume zero lignite and a mix of the 8400 and the 8800 for both sets of Generation facilities.

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

A

In Texas?

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

A

In both Midwest Gen and Texas.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

So, you're now using 8400 in – because Midwest Gen before your acquisition was predominantly 8800. You're now using a mix of 8400 and 8800 so we should kind of look at the – where those both respective curves are trading and use some kind of blend between the two.

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

Yeah. I mean the blend is different in the different regions, but it's fair to say that it's all PRV at this point, that lignite is out of the equation.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC
Q

Got it. And then thinking about the Texas coal plants, just curious your thoughts on the economics of both Limestone and Parish given we've seen a little bit move in the forward curves but given how weak the off-peak is. Just – you're kind of thought process of the viability of those coal plants and your views on viability of other coal plants in the Texas market and whether there's another wave of coal plant retirements coming.

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

Well, I think it's fair to say that as you go forward with, to your point, low off-peaks, what you're seeing is a concentration of value on the peaks and then, within the peaks, a concentration of value in the summer as well. And so, with high forward summer prices, that buoys all boats and certainly the coal plants do well in that scenario as well. If you run out the curve 10 years or something like that, obviously things look different because it's a relatively backward-dated curve when you get out that far.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Okay. Last item, Agua Caliente, how do you think about the timing of actually being able to do anything with it just given some of the Linder comments and the cash traps, et cetera?

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

Yeah, I mean, we're evaluating Agua Caliente. As you know, the expected sale to clear away didn't happen and we are going to be waiting for a better environment when we monetize that asset. It's not – it's contract – it's under long-term contracts and it's not necessarily fits the profile of our current platform. So, I mean, we're going to look out beyond 2019 and evaluate the options. But I think we're not going to be forced to do something in a challenging environment. We're going to do it when we think are better times than just – I mean just as a way of just additional context. I mean remember, Agua Caliente is not in our 2019 financial guidance, so it really doesn't have any impact one way or another.

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

Hey, Michael. I have one more follow-up thought on that. If you look at the shape of the reserve margins, and we have our version of it on page 5 there. You see that as you get into 2022 and 2023 that you're back in that 7% range or something like that. And I would suggest that the pricing in 2022 and 2023 does not reflect a 7% reserve margin. So, either the reserve margin is right, in which case the price is wrong or the price is right and the reserve margin is wrong. And so, a one of those two things has to give, but as of right now, they're in a state of, call it, cognitive dissonance.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks, guys. Much appreciated.

Operator: Thank you. And our final question for today comes from the line of Ali Agha from SunTrust. Your question, please.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. Just a couple of quick ones. One, from a big picture perspective, if I look at that wholesale disclosure you've given us and the trends that you're showing us 2020 over 2019, and then I lump on top of that the margin enhancement plans you have over 2020 over 2019, so just from a big picture perspective, as we stand today, is it fair to say that 2020 EBITDA is probably looking pretty flattish with 2019? That's the way to think about it?

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

A

Yes. I mean, I think when you think about 2020, it looks pretty consistent with 2019. Obviously, there's always puts and takes. In 2020, we have the impact of margin enhancement, the curves are backward dated so you have more degrees on freedom on your Retail. On the Generation side, your capacity is under some pressure. But – so, I mean, there are puts and takes, but it's pretty consistent year-over-year.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got you. And then, also to clarify and we showed – I think as you mentioned that Agua Caliente, you said is not in the 2019 forecast and maybe I misread, but I thought looking at one of your slides that it included about $40 million of Agua Caliente in 2019? I think it's slide 10 footnote. Can you just clarify that?

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

A

Yeah. Ali, sure, that's a distinction that I think we're making. So, I think what Mauricio is referring to is, our existing guidance range which we established on our third quarter call, at that time, our expectation was Agua Caliente would be sold very early in the first quarter. So, we did not bake that into our budgeting or our forecasting for the year. That's the basis on which that guidance was established.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay.

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

A

So, today, now let me pivot to why you've got the footnote there, right. Now, that we know Agua Caliente is not going to be sold, it is going to be – its results will be included in our financial results. That's the distinction between the two.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc. Q

Okay. But you then changed – I mean, it's within the guidance range, but are we assuming that it's accretive?

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

Sorry, what was that, Ali?

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc. Q

I was just thinking, is it additive or is it replacing some other $40 million so it doesn't really net-net make any change? I'm just clarifying that.

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

Yeah. Well, obviously, we've got a $200 million range on EBITDA. So, certainly, over time, the portfolio evolves. We reforecast. We take another look at it, et cetera, et cetera. So, it's certainly included as we look at our expectations now going forward, but it's in the range.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc. Q

Got you. And last question, just to clarify. This new $1 billion buyback, again, is the plan to complete that in calendar 2019 or does that sort of slip into 2020 as well?

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

No, it's – we're targeting 2019.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc. Q

I see. Okay. Thank you.

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

Thank you, Ali.

Operator: Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program over to Mauricio Gutierrez for any further remarks.

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

Thank you, Jonathan. It was good talking to all of you. I look forward to continuing our conversation in the days to come. Thank you.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

Operator: This does conclude the question-and-answer session of today's program. I'd like to hand the program over to Mauricio Gutierrez for any further remarks.

Mauricio Gutierrez

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

Thank you, Jonathan. It was good talking to all of you. I look forward to pinning our conversation in the days to come. Thank you.

Operator: Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Good day