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NRG Energy, Inc. (NRG)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: [ph] Ladies and gentlemen, welcome to the NRG Energy, Inc.'s First Quarter 2020 (00:00:07) Earnings Call. At this time, all participants' lines are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Kevin Cole, [indiscernible] (00:00:32) Investor relations. Thank you. Please go ahead, sir.

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

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

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

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

And now with that, I'll 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 Retail Mass; and Chris Moser, Head of Operations.

Before we begin, I would like to take a moment to say from everyone at NRG, we sincerely hope that you and your families are well and our thoughts are with those impacted by the COVID-19 pandemic. We have never been clearer how critical electricity is to our way of life. And now more than ever, our communities are relying on the services that we provide to homes and businesses. I want to thank our essential employees who are on the frontlines safely operating our power plants and supporting our customers. These employees continue to impress me every day with their commitment and courage during this unprecedented time.

Turning to slide 3, I'd like to start by highlighting the three key messages for today's call. First, we initiated a comprehensive response to COVID-19 focused on maintaining safe and reliable operations. Our number one priority remains protecting the health and well-being of our employees, so they can safely deliver electricity and keep the lights on for our customers and communities. Second, given the changes that we have made to our integrated business, we were able to deliver strong results during the first quarter and reaffirm our full year financial guidance. Third, and as we promised on our February earnings call, we are providing enhanced disclosures on our business, including the introduction of new integrated regional segments.

Turning to slide 4, I want to talk to you in greater detail about our response to COVID-19. As you know, our top priority has been protecting the safety and well-being of our employees. On January 21, one day after the first confirmed US case, we activated our crisis management team to ensure we were prepared for any scenario. On March 17, we closed our offices and transitioned employees to remote work. We have remained fully operational during this time, with over 95% of our office personnel working remotely.

While we closed our offices to non-essential personnel, we also have employees who provide critical or essential services and continue to work at our power plants and offices every day. As part of our commitment to protecting their health and safety, we introduced health screening guidelines for those continuing to work on-site, initiated deep cleaning protocols, enacted strict social distancing guidelines, restricted access to offices and power plants, and implemented staggered staffing for essential functions.

We have also expanded health benefits for all employees to include access to virtual doctors and awarded grants from our NRG Employee Relief Fund. These additional resources are intended to protect our employees and their families. With respect to our operations, the impacts have been limited. A few outages were delayed due to COVID-19 issues. However, none of them had a material financial impact or reliability implications.

Our spring program included 84 outages and a nuclear refueling at STP. So, we are well prepared for the summer months. We did stop work at all non-essential projects, including our Encina demolition project in California. We have also paused face-to-face retail sales activities to support the safety and well-being of our team and communities.

Recognizing that some of our customers have been financially impacted by COVID-19, we temporarily paused all late fees and electric disconnects and offer deferred payment plans to provide temporary relief. We also worked closely with the PUCT and other Texas market participants to create a solution that extends additional assistance through mid-July to low income customers and those facing significant financial hardship as a result of COVID-19.

In April, we announced a pledge of $2 million to relief efforts aimed at those on the frontlines who needed the most. This includes funding and critical safety supplies to first responders who are in desperate need of personal protective equipment. Community-led relief funds for small businesses which have been devastated as social distancing and shelter-in-place guidelines have forced many to close for months, and teachers and educators who play such a pivotal role in our communities where we live and work. We have begun activities to return our employees to the new normal operations, prioritizing their safety and well-being.

Now, moving on to our financial and operational result for the quarter on slide 5, we achieve top decile safety performance and delivered $349 million of adjusted EBITDA, almost a 5% increase from the same period last year. These results were driven by the addition of Stream Energy and margin enhancement initiatives, partially offset by mild weather across our core markets. To put the mild weather into context, ERCOT and the Northeast saw temperatures that were 20% and 17% warmer than the 10-year normal for the first quarter.

We're also reaffirming our full-year guidance based on our expectations of a gradual reopening of our economy during the summer and the stability of our integrated platform, but these are unprecedented times and expect most of the adverse impact from COVID-19 to come from customer payment-related items like bad debt. At this point, we estimate that to be around $50 million. We will look at offsetting this impact through prudent cost management and ERCOT's relief fund.

During the quarter, we implemented our Infectious Disease and Pandemic Plan to ensure business continuity as we discussed in the previous slide. We also updated our reporting segments during the quarter and are providing enhanced disclosures which I will discuss in greater detail later in the presentation. These disclosures are intended to help you think about our business in the same way we manage it. I also believe they will help demonstrate the stability of our ERCOT platform that we have long talked about but which was difficult to illustrate when retail and generation went off as the separate businesses.

Finally, on the last earnings call in late February, I spoke at length about our sustainability program and our commitment to transparency. To that end, we just published our 10th annual sustainability report. Our comprehensive sustainability framework is foundational to the long-term success of our company. One of the key metrics is the speed at which we are decarbonizing our business. As you will see, we are now 83% of the way to achieving our 2025 goal and have clear line of sight together.

Moving to slide 6, I want to highlight some of the impacts we are seeing on electric demand in our core markets. On the upper right-hand side of this slide, we have estimated year-on-year weather normalized changes in load for April. As you can see, electric demand has been impacted across the country with declines anywhere between 6% to 9%, except in ERCOT which continues to show resilience and it is down only 2%.

Even within ERCOT, we're seeing significant differences between West Texas and the rest of the state, driven primarily by the impact of low oil prices in the Permian region. These differences are not only regional, but also by customer class as you can see in the lower right-hand side of the slide. Residential demand which makes up around 30% of ERCOT peak electric demand this time of the year is up 7% for the month of April, while small business and C&I have been negatively impacted. The point I want to make here is that the impact to specific companies will depend on the customer mix in their portfolios. In our case, we are heavily weighted toward the Texas residential customers.

Now looking ahead into the summer, Texas already began a partial reopening of the economy. This suggests that the severe impact to small businesses we have seen in April may ease as the economy reopens. Conversely, the impact on the oil patch may just be getting started. I will simply remind everyone that our largest exposure in

ERCOT is to residential demand, and so far, that has been robust. The impact to summer load is difficult to assess at this point. But I can tell you that summer prices will be dependent on wind production and weather.

Finally, the long-term outlook for ERCOT from our perspective will remain robust. We know that reserve margins are dependent almost exclusively on new renewables coming online in the next few years. No doubt COVID-19 and low oil prices will have an impact on demand. It's difficult to know how much at this point. We have no new renewables PPA this quarter, which is indicative of a slowdown in new renewable development.

How much these two things offset each other is going to determine scarcity prices going forward. Now, based on where the forward curve is, not much scarcity is assumed in the forward prices which is not helpful for new renewable developments or any new development for that matter. This is why we think reserve margins will be tighter than what we have seen in the CDR.

So with this market context, I want to review how we are positioned as a company to perform during this unprecedented period on slide 7. Since I took over as CEO over four years ago, we deliberately evolve our business from a highly-levered IPP to a more stable and predictable integrated power company. During this time, we simplify and streamline our portfolio, achieve what we view as an investment-grade balance sheet, establish a transparent and compelling capital allocation framework and make sustainability an integral part of our foundation.

While the stock price doesn't reflect it, we expect all the good work we have done to be reflected in our stable earnings as we successfully navigate the current downturn. As you can see, we rebalanced our portfolio by selling non-core and underperforming assets to better match retail load with generation. By integrating these two complementary and countercyclical parts of the value chain, we have significantly stabilized our earnings. As you can see in the new segments, our business is heavily weighted towards residential cost – consumers which has proven to be a more resilient group during this period, particularly in Texas.

Second, our balance sheet has never been stronger. Last year, we reached our goal of driving our net debt-to-EBITDA ratio within our target investment-grade metric range of 2.5 to 2.75. And through continued operational performance, we expect to drive this ratio to the conservative end of that range this year. We remain in close dialogue with the rating agencies, and we continue to target investment-grade ratings over the next 12 months.

Our balance sheet strength goes well beyond these metrics. We have done a good job in managing our maturity schedule and liquidity. Our next maturity is not until 2024 and each year's maturity is sized to be less than any one's year's free cash flow. Our liquidity also remains strong at approximately $2 billion.

Next, on capital allocation, all our actions to stabilize and rightsize our business have created tremendous financial flexibility. And now, with our deleveraging program behind us, we're focusing all our excess cash in 2020 and beyond on perfecting our business model and returning capital to our shareholders. Last year, we established a longer-term framework build upon a commitment of value creation through disciplined capital allocation across all cycles. With this financial flexibility, we will continue to evaluate opportunistic growth that meets our financial thresholds and return capital to shareholders through growing our dividend to 7% – to 9% combined with programmatic and opportunistic share repurchases.

Finally, our comprehensive sustainability framework serves as a solid foundation for our portfolio, as it is embedded in our culture, aligned with our strategy and necessary for our long-term success. The bottom line is this, our company is stronger today than it has ever been. We recognize that our business model is unique and relatively new. I look forward to further validating the stability of our platform through our strong execution.

Today, we're taking one additional step in the evolution of our business model and how we report results. We have moved from having two distinct businesses, Retail and Generation, to one integrated business with a regional focus. Therefore, we need to realign our segment reporting to match our integrated strategy and the way we operate our company.

Turning to slide 8, we're introducing the new regional segments and EBITDA sensitivities. These segments will have the benefit of a common market structure. And importantly, we will better highlight the stability of our ERCOT platform. Also, the new sensitivities now captured the full impact of the integrated business at the EBITDA level. The Texas segment will include all activities in our value chain from customer operations to market and plant operations. In this new format, revenues will be primarily driven by retail, while cost will be either the fuel that we buy for our power plants or the power we purchase from the wholesale market. This is exactly how we manage the business. The integration of these two countercyclical businesses results in long-term earnings stability from this segment, which is reinforced by the limited sensitivity to power prices shown in the bottom of the slide.

The East segment will include all non-Texas customer activity and all generation assets in the East. This region is not fully balanced between retail and generation. Therefore, we will continue to have both revenues and cost for each business. Our focus is to better match these two parts so we can fully integrate.

The West and Other segment includes the conventional and renewable projects in California, the Cottonwood lease and our interest in one international asset. This segment will only have generation revenue and cost since there is no ability to replicate our integrated model due to a lack of competitive retail market. Because the East and West segments are not fully integrated, the sensitivity to changes in power prices are not optimized as it is in Texas. We believe this new segment structure better reflects our operations and regional impacts.

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

Kirkland B. Andrews

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

Thank you, Mauricio. Starting on slide 10, I'll provide a bit more detail on our new segment disclosures that Mauricio just reviewed. In 2020, we're aligning our reported segments with our integrated operating model, which no longer involves managing two distinct lines of business that is being retail and generation. Our new segments reflect our integrated regional focus with our customer-facing business as the primary revenue driver and the majority of our generation and associated costs, particularly the ERCOT supporting our customer load. Our new segment financial results will provide a clearer picture of the EBITDA produced by our integrated segments by geography and is consistent with the way we manage our business, one position for each market.

To help you better understand our historical results in this context, at the top of the slide, we've translated our 2019 results into the new geographical segments as they will be reflected in the components of our guidance going forward. Specifically, the Texas segment includes all of our customer market and plant operations within ERCOT, and we'll be providing the expected contribution from this segment to our consolidated EBITDA guidance range going forward. We will also be providing the expected contribution to EBITDA guidance from the remaining reporting segments which include East, West, and Corporate and are comprised of the remainder of our businesses.

On the upper right of the slide, you will find our 2019 results recast into these categories as compared to the corresponding results of our 2020 EBITDA guidance range. Later today, in addition to filing our 10-Q, we'll also be filing an 8-K, which will contain restated financials based on our new segments on a quarterly and annual basis for 2019, as well as annually for both 2017 and 2018 in order to further assist you in comparative analysis. You will find some of this information on slide 21 in the appendix to today's presentation as well.

The bottom half of the slide provides a bit more color on both the operations within each reporting segment as well as some highlights on the key components of the integrated margins within each. Focusing on Texas, you should be thinking of our revenue line as retail revenue, while our cost to serve is comprised of both fuel cost associated with generation supporting our load and purchase power to support load in excess of economic generation. Going forward, generation revenue in this segment will be minimal.

In the East, our primary revenue will be from retail sales and capacity and also include energy revenues from our plants that are not located near our load. The West is exclusively generation where our thermal assets in California and associated resource adequacy and energy revenue primarily comprising revenues on the income statement, while cost of goods sold will again primarily reflect fuel costs associated with those assets.

The West segment also includes our interest in the two remaining utility scale projects in California, those being Agua and Ivanpah, as well as our partial interest in our one remaining international generating plant in Australia. However, all three of these interests are accounted for under the equity method and our share of the earnings will be reported on a single line in the income statement.

Turning to the financial summary on slide 11, NRG delivered $349 million in adjusted EBITDA and a robust $167 million in free cash flow before growth for the first quarter of 2020. Texas delivered $195 million in adjusted EBITDA, a $19 million increase versus 2019, largely due to the increase in load from the acquisition of Stream, which occurred in the second half of 2019, and improved margins due to the lower supply cost in Texas.

The balance of our quarterly results of $154 million from East, West and Corporate was in line overall with last year's results. However, within this, we did have a few items of note worth highlighting for comparative purposes. During 2019, we recognized a one-time gain of $27 million from the settlement of the Midwest Generation asbestos liability. During Q1 of 2020, due to the drop in oil prices, we wrote down our oil inventories in the East by $29 million, which is a non-cash charge to earnings and EBITDA. Offsetting this write-down was the recognition in 2020 of $30 million in outage insurance proceeds related to outages that occurred last year.

Finally, much improved availability of our Sunrise facility in the West and the lower cost of operations allowed our adjusted EBITDA outside of Texas to remain flat versus 2019. We saw no material impact from COVID-19 during the first quarter. However, as Mauricio mentioned earlier, over the balance of the year, we currently anticipate an impact of approximately $50 million due to the effects of the pandemic on customer payments, particularly bad debt expense which we will look to offset through targeted cost management and the ERCOT relief fund.

Moving to free cash flow before growth. During the first quarter of this year, we received the $60 million in cash flow items I highlighted for you last quarter which contributed to robust free cash flow before growth of $167 million. Due to the CARES Act, we expect our free cash flow before growth of the balance of the year to further improve from the delay of approximately $17 million of FICA payments into 2021 and 2022, as well as the acceleration of $11 million of AMT refunds that were previously expected in later years.

As Mauricio mentioned earlier, we continue to maintain strong liquidity of approximately $2 billion. However, as a precautionary measure and to ensure we maintain surplus cash on hand in the event of stress in the banking system, during the quarter we drew down our revolving credit facility by approximately $550 million to proportionally increase cash on hand. As liquidity in financial markets has improved and we entered the more cash generative time of the year, we expect to repay the revolver balance back to zero. And since the first quarter, we've already reduced that balance by more than half.

Finally, turning to an update on share repurchase activity. To-date, we have completed $224 million in share repurchases at an average price of $33.05, which consists of $60 million in purchases, which was remaining balance of our 2019 program, and $164 million of programmatic repurchases under our new capital allocation policy.

Finally, turning to slide 12 for a brief update on capital allocation activity, our expectations for 2020 are unchanged with the only item of note being the increase in share repurchases year-to-date. Having now executed $164 million in share repurchases under the new capital allocation framework through the first four months of this year, we have now completed more than 40% of our targeted share repurchases as a part of our commitment to return 50% of our annual free cash flow to our shareholders, which this year total $675 million including our recently increased dividend.

The balance of $614 million and remaining capital shown in green on the right of the slide remains available for accretive investment opportunities. However, should we be unable to find sufficient magnitude of strategically consistent value-enhancing opportunities, we intend to allocate the balance of this unallocated capital to our shareholders.

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

Mauricio Gutierrez

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

Thank you, Kirk. Turning to slide 14, I want to provide you a few closing thoughts. Over the past four years, we have used a yearly scorecard to make sure we communicate in a clear and transparent way our priorities and progress, but also to hold us accountable. As you can see, we're starting to make good progress in some of our key objectives. It is still early in the year and as a company, we are focused in the important summer months and the safe return of our people to the new normal. I expect to update you all on our capital allocation plan and the use of our excess cash in the coming months, as we continue to generate robust cash flows during the summer.

So, before I open the line for questions, on behalf of the entire NRG family, I want to thank our brave frontline workers and first responders for all they do during this difficult time.

Angela, we are ready to take questions now.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Shahriar Pourreza with Guggenheim Partners.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Hey. Good morning, guys.

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

A

Hey, good morning.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

A couple of questions here. Can you – we start off and maybe you could talk a little bit about the landscape of potential retail opportunities as we kind of look at the second half of the year? Does the PUCT's sort of rate relief program and maybe some of your lower estimates around peak demand in Texas maybe take some of the pressure off of the smaller ERCOT books to sell and shift maybe your focus for further buybacks as there's obviously you highlighted $600 million of unallocated to cash for 2020? Did you sort of at this point see anything that meets your hurdle rates, especially given where the stock is trading here? So, a little bit of the retail environment and any potential inorganic opportunities. [indiscernible] (00:30:07).

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

A

Yeah. So, well, I mean, no, I will say that definitely the bar is higher because of where our stock is and we believe that's significantly undervalued. Having said that, we are monitoring all the opportunities. I mean, as you said, I think the environment has changed on the M&A side. We continue to be focused on growing our retail business, but we're going to do it in a way that not only meets on an absolute and relative basis our hurdles. On an absolute basis, it needs to meet our financial hurdles, but also on a relative basis, it needs to be superior to buying back our own stock and investing in our company.

So, we're going to continue to monitor that. And as I said on my prepared remarks, I think we're going to – we're going to go through the summer which is where we make most of our excess cash, before we actually give an update on our capital allocation plan and give you further clarity on the additional 50% of our access cash. So, that's where we are on that – on capital allocation.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. And then just can you, Mauricio, give a little bit more specific on your conversations with the agencies on an IG upgrade? I mean, are they getting more comfortable around the business risk profile and the retail segment? I mean, clearly, what you're displaying today is the sustainability of the model.

And just going by some of your prepared remarks, it doesn't sound like you're seeing the IG timeline slip due to COVID as we saw maybe with one of your competitors. So, just maybe a quick update on sort of how that conversation is going.

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

Yes. Well, I mean, I'd turn it over – I will turn it over to Kirk because he's had very direct conversations with them. But what I will say is, I mean, I think we have executed well on our platform and demonstrated the stability. And once, again, this year provides us a tail event that further demonstrates that stability. So, as we have to demonstrate to our investors, we also have to demonstrate this to rating agencies. They are not that different in that respect, so. But I'll just hand it to Kirk to talk about the timeline. Kirk?

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

Yeah. So, I think you covered some of the backdrop I would have given as well, Mauricio. But overall, our dialogue with the agencies remains active and very positive. I think, overall, they continue to be satisfied with both our performance and our strategy. But obviously, as Mauricio alluded to, I mean, given the current backdrop and uncertainty in the broader economy, it's not a favorable set of circumstances, certainly an immediate upgrade.

But I would say the fact that both have maintained our positive outlook underscores their appreciation for our performance and our outlook, as well as our balance sheet. And as Mauricio said, look, the current events provide an opportunity for us to prove the resilience of our platform under extreme conditions, and that would provide us a further argument towards that upgrade.

I mean, that said, understanding in the near term, I think the agencies are likely to take more prudent wait-and-see, if you will, approach to ratings upgrades. So, it's reasonable for us to assume that that may extend the timelines a little bit, maybe six months forward. Certainly, that's not our objective or target, but I think we have to be reasonable about the pace given the circumstances we're in.

But, overall, based on our dialogue with the agencies, we're confident that with continued performance, investment-grade remains achievable at our current leverage level which were in line with those targets.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Terrific. And then just lastly on pursuing additional portfolio of rebalancing for the East/West segment. Any – can you just provide a little bit more detail there?

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

Yeah. Sure. I mean, I think, as I've said it before, our generation assets are close to both pockets. There is significant locational value. We recognize that and our goal is to monetize and/or optimize the value and maximize the value. So, when the time – when we have more clarity on the plans, we will communicate to all of them. But we are very focused on rebalancing our business just like we have done in Texas. Our goal is to continue rebalancing the East and we're going to monitor what happens in California, so that's where – that's the information that I can give you for that.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Terrific. Thanks, guys. Stay safe and congrats on the results.

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

A

Thank you so much. Same to you.

Operator: Your next question is from Julien Dumoulin-Smith with Bank of America.

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

Yes. Good morning, Julien.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Hey, excellent. [indiscernible] (00:35:15). I wanted to follow up on – perhaps just talk sensitivities about the retail business here and I know you all have the – illustrated the success in the integrated platform, but I'm curious, as you see residential sales trending up here even relative to commercial and industrial, how do you think about that positioning you within 2020 guidance, what might be the offsets, for instance, customer attrition, if you will, as an example? But I'm curious how you would position yourself within the context of your current year guidance given the trends that you're seeing on residentials and quantify that a little bit more.

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

A

Yes. So I feel comfortable reaffirming the guidance range that we provided to you. I think that we're monitoring and we're seeing how quickly the economy reopens. And that's going to inform what happens with our customers and customers' load. I think we wanted to show what happened in April and it's pretty significant the increase on the residential customer compared to small business and C&I.

But as I said, I mean, we need to see how quickly people come back to work. I think that's going to perhaps help the small businesses. It's going to bring residential back to normal and C&I, we're going to evaluate because it's not only COVID-19, but also the impact on oil prices. But that's very, very focused on West Texas.

I think the important thing is we wanted to quantify so far what is our estimate in terms of the impact of COVID-19. And we are looking at – we're going to take initiatives both on the cost management side and the relief fund to offset that. Outside of that, I mean, I think it's just – there are so many things that we don't control, how quickly you know states open, how quickly people are going to go out. I mean, we are encouraged to see that Texas already taken the first steps to reopen the economy. But, I mean, I think, there is still a lot to assess. Obviously, the make-up of our portfolio is heavily weighted towards the residential consumer, but we need to assess all the other [ph] area (00:37:41).

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Got it. Fair enough. And then moving over to capital allocation again, and I don't mean to belabor at this point, but do you have sort of a definitive [indiscernible] (00:37:53) that hit you around when we get the capital allocation uptick? And has you think about growth versus buybacks [indiscernible] (00:38:00) just curious where they are and perhaps less obvious growth angles? I mean, I just want to kind of get a little bit more of a definitive sense on [indiscernible] (00:38:10)...

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

A

Yeah.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

...the remaining unallocated.

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

A

Yes. Well, I mean, first, I think we've made really good progress on our capital allocation. We have fulfilled our commitments with our new dividends. We are ahead of pace on our share buybacks. I mean, I think in the last call I said we're going to be very programmatic. But I'm not tone-deaf when I see the significant undervaluation of our stocks. So, we actually were a little bit of more opportunistic this quarter. And we're ahead of pace.

And then, for the other 50% of our excess cash that has been planned for growth, I mean, it's early in the year, I want to see how things evolve in the next couple of months. But I feel confident that I can provide you a little more clarity in the next couple of months. I mean, we're not going to wait until the end of the year to provide you that clarity if that's your question of what you're implying. I mean, we're going to come back earlier than that to provide you more visibility on that additional excess cash.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

And just to clarify the last question here, with respect to attrition and bad debt churn, any concerns [indiscernible] (00:39:24)? Obviously, [indiscernible] (00:39:26) on balance, but I just want to be very specific about those two pieces.

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

A

Yeah. I mean, customer payment items like bad debt is something that we are monitoring very closely because of we have many customers that have been impacted by the COVID-19 and they are in financial hardship. We've been working very closely with the PUCT to put together a program to provide relief to those customers. We have provided you already an estimate on what we think that could be. Obviously, we're going to work with the PUCT to offset some of that costs through their relief fund, but also we have other levers that we're already activating to make sure that we mitigate the impact of that, what I described as one-time items due to COVID-19.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Operator: Your next question comes from Stephen Byrd with Morgan Stanley.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning. I hope you all are doing well.

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

A

Good morning, Stephen. Same to you.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Congrats on the good results and the increased disclosures. Definitely helpful. I wanted to talk about renewables opportunity. I know you didn't say anything new up, but just given the potential distress and challenges that some of the smaller developers might have, would that potentially create an opportunity to actually own some of these projects rather than simply be an off-taker? In other words, could you potentially sort of for relatively modest capital actually take over projects for companies that are having a hard time sort of funding their development from here?

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

A

Well, I mean, at this point, our focus is on our capital-light strategy. I mean, we've been there, done that in terms of the ownership. And, you know, at this point, I prefer the – you know, the strategy that we're executing. As I said, you know, we didn't sign any new PPA during this time. So, I think that should give you an indication that, you know, this thing has slowed down. And the development of our renewables in Texas, you know, perhaps is just, you know, pushed out a little bit. We're very active. We're going to continue to remain active. We think that, you know, given where the company is, given the balance sheet that we have, you know, we are an excellent offtaker of these, and, you know, we should be signing very high quality projects. But, you know, at this point, I don't see ourselves, you know, taking ownership of a renewable plant.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Understood. I respect that. And then just shifting over to the residential demand and just the overall demand outlook that you provided on slide 6, which was helpful. I guess, I'm thinking if residential demand were to remain strong throughout the summer, maybe into the fall, as just we see more people at home and greater usage there. I mean, that seems to be fairly meaningful. The margins are attractive on that side of things. How important would that be from a guidance perspective, or put differently, if we continue to see fairly strong trends of high residential demand, would that be meaningful in terms of the range of the guidance and push you towards the higher end of the range?

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

A

Well, I mean, without, you know, talking about, you know, where you are going to be in the guidance or not, I mean, I think it's – it is important to recognize that our portfolio in Texas is primarily residential customers. And we have seen actually an increase in demand from those customers.

Now, as you go into the summer, just recognize that perhaps, April, the increased demand is much bigger than what you're going to see in the summer months because in the summer months you normally already have people using a lot of electricity. I mean, people, kids are out of school, they come back to – so we don't expect to see the same level of impact as we go into the summer as we have seen in April, so yeah.

And also, it's going to depend on how quickly the economy comes back, right? I mean, small businesses, perhaps they open gradually, they're not going to open at full capacity at first. So, we're assessing that. But I think it's too early to tell, to start trying to make some sort of assumptions in terms of what would be the ultimate impact of our – in our portfolio.

Obviously, if you have a 6% increase or 7% increase on residential demand for the balance of the year, I mean, that's great for us because we have a pretty significant exposure to it if that's what you were trying to imply. But I also want to be cautious that there's so many things that we don't control here. We are – I think we are very well-positioned. I think we're managing our company and our risk well. But we are also mindful that there is a lot of things that are outside of our control and we need to just monitor that, observe that. And as we see it, we communicate that to you.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Very fair. Thank you very much.

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

A

Thank you.

Operator: Our final question comes from the line of Jonathan Arnold with Vertical Research.

Jonathan Arnold
Analyst, Vertical Research Partners, LLC.

Q

Hi. Good morning, guys.

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

A

Good morning, Jonathan.

Jonathan Arnold
Analyst, Vertical Research Partners, LLC.

Q

Thanks for all of the update. I just have a question on the new integrated modeling, you know, portfolio data. I think given that you are net short in ERCOT, can you just help us sort of reconcile the positive sensitivity of the power prices and just how to think through that on an integrated basis?

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

A

Yes. Well, let me just start by saying that we're not net short. I think that's, you know, I've heard that a couple of times and that's a common, you know, misconception. When we go into the current year, we're perfectly balanced, you know, between generation and retail, you know. I mean, we, obviously, are going to try to optimize these two assets that we have generation assets and retail load. But I think you should assume that, you know, when we go into the current year, you know, we complement the production of our megawatts from our plants, you know, with purchases from the market. So, you know, I wouldn't say that we're – that we are short.

In terms of the sensitivities, I mean, now these are integrated sensitivities at the EBITDA level, which not only is the interaction between, you know, generation and retail on a gross margin basis, but also all the – some of the other levels that we have to ensure that, you know, we optimize, you know, these two parts of the business.

So, you know, I mean, I think really the bottom line is, those sensitivities we're trying to bridge – to make them as small as possible. I mean, that's the whole idea of a stable platform is regardless of what prices do, whether they go up or down, our sensitivity is minimal. I think that's really what, you know, the key takeaways of, you know, – but, you know, since we're talking about position management, I'd like to turn it over to Chris to just – do you have anything else to add, Chris?

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

Yeah. Hey, Jonathan. One way to think about the math a little bit is – and I'm assuming you're getting the net short because you're looking at we serve 60-whatever terawatts, 58, 60 terawatts of load, and we've got 40 terawatts of expected generation. So, you're saying, where is the other 20, are you guys short out there? Those numbers are true when it comes to delivery. But if you think about out a couple of years, we haven't sold all of that yet. We have the opportunity to pass through price changes. So, it's not fixed price and we're short 60 terawatts for the next five years, right? That fixed price short rolls in over time, and we can flex and change price on that. And to that extent, it's not a fixed price short out there for all eternity, if that helps you think about the modeling a little bit.

Jonathan Arnold
Analyst, Vertical Research Partners, LLC.
Q

No, very helpful. That's best in time all the new disclosure. Thank you for that. Can I just follow up with one other item? Mauricio you mentioned this kind of the bad debt number of $50 million. Should we think of that – is that just an ERCOT number or is that the portfolio-wide number? And should we think of that as something that would persist if we have a slow recovery or continued economic hardship into next year? Or is that something you would not – you did mention that, you said one-time, I think, in one of your comments just to help us maybe frame that a little further?

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

Yes. No. I mean, it is for the portfolio as a whole. And then when I say one-time, it's because this is very specific to the impact of COVID-19 to customer payment-related items, which bad debt is one of them. So, yes, you need to think about it as – for the entire portfolio. And yes, this is a one-time COVID-19 related.

Jonathan Arnold
Analyst, Vertical Research Partners, LLC.
Q

Okay. Thank you.

Operator: I would now like to turn the call back to Mauricio Gutierrez for closing remarks.

Mauricio Gutierrez

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

Well, thank you, Angela, and thank you all for your interest in NRG. I hope that you are staying safe and well, you and your families, and I'll be looking and talking to you in the next couple of weeks. Thank you and talk to you later.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.