Participants

Chad Plotkin, CFO at Clearway Energy (CWEN) (formerly NRG Yield (NYLD))

Nate Abercrombie, The Stock Podcast

Interview Transcript

Nate: Chad, thank you very much for coming on to the program, it's an honor to have you on and I just really appreciate it. So, thank you very much for agreeing to an interview.

Chad: You bet.

Nate: If you wouldn't mind to start by talking about your background. How did you get into the industry and how did you end up at NRG Yield.

Chad: Sure. Well, I appreciate it.

Chad: My career thus far has spanned about, I guess a little over 20 years now. I've been within NRG energy businesses for a little over 10 years, or about half of my professional career at this juncture. Most of my background really prior to the last call it six years or so, seven years have been in corporate development, M&A type of activity, new business development on the principle side. That expand all the way from when I began my career in the late '90s at Enron Corporation in their analyst associate program, and then through a couple of start up entities. One outside of the energy space, with start up company that was during the advent of retail energy deregulation, and then sort of slowly migrated myself into a variety of roles. Then in 2007, joined NRG and M&A. Since that time, I spent a number of year in NRG's M&A group focused on acquisitions and divestitures, and then in late 2011, and then early 2012, I actually became NRG's head of investor relations, and that was a role that I did up until 2015, and that also included helping support the initial public offering of NRG Yield.

Chad: And then, after that, couple other stints, but in 2016, I assumed the role of the head of finance for yield reporting into the then-current Chief Financial Officer, and then at the end of 2016, I became the Chief Financial Officer of NRG Yield.

Nate: Could you describe NRG Yield. What is a yieldco and could you also just sort of highlight some of the, well the tax-efficient nature of the business.

Chad: Sure, I think, if you think about yieldcos, maybe I'll start with the basic premise, which is what you really have at the yieldco is what you said is a tax-efficient infrastructure investment for investors to have an opportunity to really own an interest in project, in the renewable energy and the power sector all the way downstream, where really the whole capital allocation philosophy we have as a company is very much aligned to the project. Long-term contracted assets, relatively predictable cash flow with our whole objective of maximizing distributions to our investors. The way we do this from a tax-efficient perspective is essentially we're an up-C structure, so the idea of an up-C structure is you basically create a C-corp whose really only investment or primary holding is a partnership interest. The way that these tax attributes, or that tax-efficiency works is the partnerships, because of the nature of renewable energy assets, and the way we finance our projects, generate a fair amount of taxable losses at a partnership level, and we're able to basically use those tax attributes or those tax losses to offset corporate incomes when we pay our dividends, for the most part, dividends received by our investors is treated as a return of capital versus divided income.

Chad: As you might expect, the benefit of that is that you're basically deferring taxes until the point in time you sell, and you get a further tax efficiency because at the time you sell, ideally, you're looking at long-term capital gains against the remaining basis in your investment versus having to pay current income when you're receiving your dividends.

Nate: Thank you very much for the explanation on how yieldcos work and what the benefits are to investors. Could you provide us with a history of NRG Yield, and also tell us about the transaction with GIP or Global Infrastructure Partners that was announced earlier this year.

Chad: That's a big question, Nate, so I'll try to do it as promptly as possible, or as quickly as possible. I've been in the NRG complex, if you will, for more than 10 years, and if you go back through that time, NRG Yield's current sponsor, NRG Energy was really an early participant in the development of new generation, and that really included both renewables and what I'll refer to as brown field development, or the re-powering of existing generation sites that NRG had with brand-new assets. What you're finding through this period of time is about really across both those areas. Many opportunities came with the benefit of long-term contracts procured through ISOs or other procurement processes to really help support new development, as it created a vehicle where new entrance or party such as NRG could go out and finance those projects effectively. Now, the challenge though is that while this was a great attribute, it just really wasn't necessarily perfect for somebody like NRG or other entrants, as at the end of the day, cost of capital continued to become increasingly important to succeed in that business.

Chad: As you know, NRG, and you go back historically, when you're a platform that was sub-investment grade and was very commodity-centric, that's just not a recipe for a low cost of capital in the market. Now, that's not to say NRG didn't have success, NRG actually did have a fair amount of success in deploying capital, but by 2013, so you're going back almost five years ago, to this month, it was obviously clear that the markets weren't rewarding NRG for any success it had, and as I said, five years ago to this month, NRG Yield was born through an IPO, which really was driven by NRG trying to accomplish three things, the first of which was to realize value in a then-contracted generation portfolio, source a competitive [inaudible 00:06:16] of NRG to participate in the, really the only area of growth in the sector, which was renewable energy, and lastly, really create a new investment for investors that value total return or dividend-in-dividend growth, and I'd say if you think about over the past five years and despite some market volatility in there, it's hard to argue that the business had success, because CAFD since the IPOs almost tripled to this year.

Chad: Now is, we move forward, and many of the same principles of the model really still hold, it was clear for everybody that there was gonna be an evolution required, where sponsorship began to move towards more well-capitalized entities and ones that could handle the kind of capital requirements for a large-scale development business, and you know the NRG story, I won't get into all those dynamics, which included an activist campaign a year ago now, but needless to say, I think NRG really came to that same conclusion around needing a new owner, and in February of this year, NRG announced the sale of its stake in NRG Yield, as well as its renewable development and operations platform to Global Infrastructure Partners, who's one of the largest infrastructure funds in the world, with over 45 billion dollars in their management, and from our perspective at NRG Yield, we just couldn't be more ecstatic with GIP as a sponsor, as they really delivered just about everything we could have hoped for in a future sponsor.

Nate: Yeah, and so what is GIP's long-term strategy as it relates to NRG Yield?

Chad: It's a good question, and I know it's clearly something that our investors are really wanting to hear from GIP and I think form our perspective, once we close the transaction, there'll certainly be a little bit more color that can be put forward; I think maybe if I can just offer my perspective from yield, I think is we talked about having GIP as a sponsor, was-we obviously couldn't be more pleased with this. The way I look at it is is having a new sponsor who, if you look what they proposed to NRG, which was to roughly invest in cash about 1.4 billion dollars. Any time somebody puts that kind of cash to work, I think it's reasonable to assume that in order for entity like GIP to earn a return on that investment, they're obviously gonna need the platform to perform well, and as I think about the composition of what they acquired with the development business along with NRG Yield, it's just hard for me not to imagine that in order for that 1.4 billion to earn a sufficient return, GIP is gonna work with us very constructively to generate long-term value operation.

Nate: I appreciate your perspective on that. Something I find really compelling about NRG Yield's asset portfolio in the context of yieldcos is that you have such a diversified asset portfolio. You have renewables, wind, solar, and some conventional generation assets with long-term contracts. In your own words, could you describe NRG Yield's asset portfolio, and the benefits of diversification?

Chad: Sure, Nate. Let me first start just with the foundational point, as an organization, we're strong believers in diversification. By diversification, I mean across asset class, technology type, geography, and importantly, cash flow contribution. For us, diversification really is a means for de-risking the platform by really just not concentrating in one area, or importantly, by creating offsets of items that can actually impact cash flow, for things like renewable energy resource or forced outages across the fleet. Now, this is of course important not only for our equity holders, but also for our discussions with the rating agencies, as we thing about the credit quality of our balance sheet. Lastly, by having capabilities that operate and value different kinds of asset classes, another benefit we really see is that it really gives us the ability to look across opportunities, not just in one asset class, we have the ability to look at acquisitions across a myriad of different asset classes which obviously is beneficial for us as we think about growing the platform.

Chad: Now, with that, let's just think about some of the numbers. If we look at our portfolio today, NRG Yield owns or has an ownership interest in approximately 7,000 megawatts of thermal equivalent contracted generation assets. This includes 3,600 megawatts of renewable generation comprised of both utility scale solar and wind projects, as well as what we refer to as distributed generation, or behind-the-meter solar projects. The company also owns a little over 1,900 megawatts of large-scale conventional gas projects, primarily located in California, and finally, we have a very unique franchise that we call thermal, or in other industry parlance, district energy, which is nearly 1,500 megawatts on a thermal equivalent basis.

Chad: If you just think about overall capacity, we're right around 51% renewable, and 49% non-renewable just in capacity. Importantly, though if I look at that from my cash flow perspective, and I focus this on CAFD, or cash available for distribution, for this year, that distribution is a bit different, in fact, it's more 70/30 renewables/non-renewables. If I think about that 70/30 of cash available for distribution on renewables and non-renewables, an important part of that, just to remind investors, is renewable obviously in an intermittent resource.

Chad: Generally, as we think about our CAFD, we want a guide on what we call P50, which effectively means the effectively means the expected amount of production you're gonna get effectively at the mid-point, like median expectation, but as we all know, you're never gonna achieve exactly P50 in any given period. Some periods, you'll be half-higher than expected production, some periods you're gonna have lower than expected production, and as we think about diversification, what is really beneficial is as you have that diversified platform, you're not exposed to one particular asset class driving the performance of your platform in any given period. As we think about overall renewables and non-renewables, there maybe a period of time where wind is blowing stronger than the other, or maybe solar isn't optimal but we think about our conventional plants with long-term contracted tolling arrangements, you generally have a far more stable part of the cash flow profile.

Nate: What is your weighted average contract life for your portfolio?

Chad: Sure, so when we think about weighted average contract life, our focus or the focus we always have is really around CAFD, versus just thinking about it on a megawatt basis, so as I think about it on CAFD, the weighted average contract duration is right around 15 years with our current portfolio.

Nate: How do you think about terminal value, and what I mean by this is: If you are an investor looking at NRG Yield as a potential investment, how would you think about the value of the asset portfolio at the end of the contract period, particularly for renewable generation?

Chad: Sure, and this will probably be a little more lengthy of a response and this is an interesting question, as I think the phrase "terminal value" is not always used necessarily correctly, to perhaps follow your question, I'll focus this as you ask, which is really the post-contract period value, which to me, as you know, Nate, is really just based on how do we think about cash flow generation capability over time at that point, especially as I think about renewables, let me just sort of offer a couple of thoughts here.

Chad: The first thing, and I think we've maybe talked about this in the past, but it has a lot to do with how we capitalize our projects, as we've talked about the financing, we generally incorporate non-recourse amortizing debt at the project level, and importantly, this amortization is structured to follow the contract period, so think about that almost like a mortgage-style kind of financing, if we've got a 20-year contract, it'll generally structure the financing, if it makes sense, to amortize out, usually just right within that 20-year period, it might come inside of that.

Chad: Importantly, just let me add, what that effectively means is you have an un-levered project at the end of that contract period. Now, as we think about this financing, it's generally sized on what we called a 1.3 to 1.4 times debt [inaudible 00:14:28] which covered ratio, so to make this really simple, and in generic, the way you would think about that is basically 30 to 40 cents on the dollar of EBITDA actually makes its way to CAFD. As it relates to terminal value, when the contract period ends, that's kind of like your point of demarkation, 30 to 40 cents on the dollar of EBITDA.

Chad: Now, the second point I'd raised is remember that while renewable energy is not dispatchable per se, it does have zero marginal cost to produce a kilowatt hour, so when you come off of contract, you don't have to worry about any cost of fuel with respect to how you can monetize any available kilowatt hours or energy that is produced at that point in time. If I just put those points together, and I'm not gonna try to prognosticate on power prices, which in some instances could be more than two decades out, if you think about certain assets in our portfolio, by virtue of the fact that you have zero marginal cost power and you're only gonna require roughly 30 to 40 cents on the dollar with an un-levered project at that time, the way we think about it is the ability to generate sufficient revenue post-contract period just to maintain CAFD is not necessarily a significant hurdle or lift as we think about that opportunity set in the future.

Nate: One thing that I think is extremely... it's something that I think is ignored and something that a lot of investors don't pay attention to, is the amortizing debt component to your business. You know that I covered Midstream for quite some time, and when people look at Midstream assets, I'm not aware of very many Midstream assets that have term loans associated with them, pipelines go into ground, the parent company issues a very large bond, and then they refinance that bond 20 years down the road, whereas you guys are paying down the principal and paying the interest at the same time, and so at the end of the contract period, the cash flows form a renewable energy facility, as long as the blades are turning on a wind facility, and as long as the solar panels are still generating electricity, all that cash flow is going straight to NRG Yield.

Chad: Yeah, Nate, and I couldn't agree with you more, and I think if there's something that I think is underappreciated in our platform, it's exactly that. If I just thought about the world of sort of capital allocation for a minute, and I thought about the free cash flow we generate, right now, the operative metric that we've guided our current year results at is 280 million dollars of cash available for distribution. To your point, that cash available for distribution is after all debts are writ inclusive of that amount of debt that we retire every year. If I just thought about that in a traditional sense about how one would allocate free cash flow, we actually repay on an average basis, look at the next five years, but let's just call it a day, this year, we're anticipating based off of our current profile, to repay $340M dollars worth of debt amortization. From a capital allocation perspective, we actually repay more in debt every year than we reserve for capital to allocate either to shareholders or to additional growth.

Chad: If I really wanted to think about the free cash flow generation in a traditional sense of free cash flow, free cash flow yield, you could literally just add cash available for distribution plus debt amortization, and you have a very different story with regards to how one should be thinking about the amount of free cash flow in the enterprise, and then importantly how we allocate that on an annual basis. To your point, if you're repaying 340, 350 million dollars a year, and you've got 185 million shares outstanding, that's a significant amount of equity value that implicitly gets created simply by the virtue of retiring debt on an annual basis.

Nate: Could you talk a little bit about the long-term vision for your company, and what NRG Yield's M&A strategy is?

Chad: Sure, well, long-term vision, we at the end of the day, we are by our nature, a total return platform, so the objective there is to deliver current income and income growth. Now, we owe the market more of an explanation of how we think about this with after the closing of the GIP transaction, so that's definitely something from an investor relations perspective that we will be rolling out once we get close. At the end of the day, the fundamental vision of the company I don't see will change, which is to effectively total return, grow our dividend, and grow it at a level where we believe that the market is gonna be supportive to effectively give us credit for that growth. The reason why that's important is that our M&A strategy is one where there's sort of two prongs of M&A.

Chad: There's the acquisition work that comes by having breath of sponsor who helps generate or have a sufficiently-sized development platform where we can continue to augment our right of first offer pipeline, and have opportunities presented to us from effectively who's gonna be our largest shareholder. That sort of provides a certain amount of grouphood. If you actually look at the NRG Yield, and the history of NRG Yield, what I would say, is there's a significant amount of growth that we've had by not actually having to rely on our sponsor, by basically being able to go out and access and execute on third-party M&A transactions. For us, the way I always look at it is, strategically, what we wanna be able to do is provide our investors a platform where they can get confident in our ability to generate that dividend growth as I described, but not be 100% reliant solely on our sponsor.

Chad: What we wanna do is have the sponsor provide enough confidence to the market such that we get enough grouphood and growth opportunities and then by virtue of that, use the strength of that sponsor relationship to help us execute and be successful in third-party M&A.

Nate: Yeah, and just so you know, I... your M&A strategy at least in the past has been impressive from my perspective, I think that what you guys did with respect to the Sun Edison bankruptcy, and you guys being able to scoop up those assets on the cheap was, I know has a lot to do with NRG, but I also know that you guys were very much involved and I'm really impressed with your ability to see value and act on it, which is, I think, one of the themes in this program, so kudos there. But-

Chad: Why, and Nate, we appreciate that, and I think, to expand on that, I think doing M&A in this business, if you're just buying one asset that's contracted, your ability to differentiate yourself competitively can sometimes be a challenge. If your only competitive differentiation is cost of capital, that is not necessarily a recipe for long-term success. I think the point what you described around the Sun Edison transaction that was executed at the time is actually the perfect kind of investment where we can add a tremendous amount of value. It's basically the type of investment that isn't necessarily a clean investment, but it's one where multiple parties can get involved, and this case say the development business or their operating business were basically different parts of an investment can get underwritten by different sort of partners, such that you can create that kind of value opportunity by virtue of two partners coming in and looking at different areas separately, and I think for us, if there's anything that can excite on M&A, it's that kind of opportunity because those are where you'll be able to differentiate yourself in a way where you're not just having to determine whether or not you're the cheapest money.

Nate: Yeah, absolutely. Could you talk about the balance sheet and kind of what your capital needs are near to mid-term, and then just also what metrics you're targeting in terms of leverage.

Chad: Yeah, so I think maybe I'll start on that latter, I think for us, what we've tried to do is stay away from a prescribed leverage metric. What we tend to focus more on is supported with the rating agencies, live within a band of a rating, and in this instance double BBA. The reason why we believe that, at least at this juncture makes sense for us, is that's where basically the cost of debt financing is generally most focused on that rating versus the actual leverage metric. By virtue of that rating, we generally find our corporate leverage targets in the four to four-and-a-half range, but that doesn't necessarily inform exactly where you should be, and again, I think for us, as we think about our metrics and our target ratings, there's a couple of reasons for that.

Chad: The first of which is if somebody asks us, "What would you consider going further into junk territory?" I think for us, as you probably know, when you start moving away from the double Bs and you get into the single Bs or even into the triple-hooks, as they like to say, the spreads begin to widen out where we are in a business where cost of capital does matter, and you'll start to see your cost of capital get away from you as it relates to debt financing, so for our perspective, going further junk is a challenging proposition for that reason.

Chad: The converse to that is we'll have other investors ask us, "Well given the nature of your business platform, what about going more investment-grade?" No, the hard part we have with going fully investment-grade is the magnitude of de-leveraging that would be required in order to get there-this is not like moving from double B to triple B- is not necessarily where we'd ever want to be, but certainly to get up to triple B+ or you're talking at least a turn of leverage, if not more, which would require a fair amount of equitization of our balance sheet, which we don't believe would be done on a creative basis, and we're not sure that would create a lot of value, but more importantly, it's how we think about capitalizing the platform, and this actually gets a little bit into what you were just asking.

Chad: If we think about how we capitalize the platform, across the capital stack, between project level debt and project level financing up to the corporate level, what we don't want, if we think about the nature of that capital formation, the least volatile of that is the term-loan project finance market; we tend to believe that it is an exceptional deep market, one where you don't see a lot of volatilities, spreads seem to be pretty tight, we have of success there.

Chad: As we move up the stack and we move into the high-yield market, within the rating bands that we wanna be, actually that market has tended to be less volatile as well. Where we've seen the volatility is really around the equity markets as we think about financing the overall part of our platform. Where we've struggled a bit is despite the point I raised earlier around what it would take for us to equitize the balance sheet to go investment-grade, the reality of the situation is that as you go investment-grade, you just put more of the burden on the equity markets to have to finance your transaction, and I think what we've is that the equity markets tend to be far more volatile than other parts of the market, so I think for us, in order to have to rely on the more volatile part of capital formation in order to consummate our growth objectives, that doesn't necessarily seem to be the most prudent area as well.

Chad: That's why in not a nutshell, but in summary, we've gotten ourselves comfortable with where we are; we feel good about where our target metrics are and our rating range is, and obviously, that provides us some flexibility as we think about how we capitalize the platform on a long-term basis.

Nate: Yeah, no, I appreciate that, and maybe asking about the balance sheet for your business isn't the best question to ask, any for any of the listeners who are tuning in haven't listened to the pattern energy interview, Mike Garland does a good job of just framing up why looking at leverage for renewable energy projects is a little bit difficult for a lot of investors out there, because there's just a lot of debt that's associated with financing renewable energy projects, but it's also a function of the tax-incentive, and the need for tax equity, and all the different very complicated components that at one point in time, I was more familiar with, but not as familiar with today, but I do appreciate the explanation. Could you tell us what your philosophy is regarding capital allocation and how you balance the return of capital to shareholders through a dividend versus other forms of returning cash to shareholders, like buybacks, et cetera.

Chad: Yeah, sure, I mean, if you look at capital allocation, and what I call a more traditional sense, we actually pay down more debt every year than we actually return to shareholders. It's an interesting thing that I think gets overlooked in our platform. This is really largely due to the way we have elected to finance the platform as we talked about earlier, with non-recourse amortizing project debt, maybe just to put this in perspective before I get to the answer you are looking for, if you look at our current 2018 CAFD guidance of 280 million dollars, remember that's after all debt service. If I simply just add back the amount of debt we're repaying every year, the principal amount of that, that number would actually be over 600 million dollars, 'cause we're amortizing right around 340 million of debt this year, so it's interesting when we think about capital allocation at the highest level, our focus is actually very much on reducing consolidated leverage.

Chad: Now, to answer your question more specifically, how do we think about return of capital, as I think about that relative to the CAFD, and look, we're a dividend growth company at its core, so our focus on return of capital is through dividends with the objective really of paying out most of our CAFD in the form of a dividend. That is what we talk about is the payout ratio, basically the amount of dividends divided into our CAFD.

Nate: Yeah, and I guess put differently, let's just assume that the yield blows out, and the evaluation makes absolutely no sense whatsoever, is there a scenario I which you would buy back shares?

Chad: Yeah, I think I would provide two perspectives: One, is there anything that precludes us from doing it, the answer is no. To your point, if something like that happened, and we thought that was the best way to accrete and create value, sure, I think that's something we could consider. I think the reality of it is is if there's a challenge in our platform, it is the fact that we don't have a tremendous amount of float in the system, so from a technical perspective, I think embarking on a buyback program would always be a challenge just because there's not just not float in the system for you to really do things effectively, but ignoring the technical pieces I just described, is there anything that precludes us from doing that? The answer is no.

Nate: Okay, that's really helpful, thank you. Where are you right now with respect to your payout ratio and if you're not at 80%, when will you be there?

Chad: Right now, if you just look at 2018 guidance, and you look at the trajectory of dividend growth that we've articulated for this year, we're probably just a little over 80%, some of that ultimately gets informed, Nate, by the amount of equity that would be put in the system, so I'm not gonna have a prescriptive number, but the one thing I would say is that does exclude some growth that we've already capitalized this year, so my expectation is we should be right around an 80% number or at least no more than that this year, but obviously, we'll see where are our number, our numbers ultimately fall out by the end of the year.

Nate: Yeah, and so your CEO Chris was asked in February in the, I can't remember if it was an earnings caller, just an update, a business update, but he was asked about whether or not the long-term distribution growth rate was going to change with the GIP investment, and he couldn't say- the only thing that he could say was that it would probably be better. I'm curious whether or not you could comment on that, and if you don't feel comfortable doing that, that's fine.

Chad: Well, I think what I would say is we think long-term. If Chris said better, I think the message Chris was saying is the ability to drive distribution growth beyond 2018 with a new sponsor who is more well-capitalized like GIP, we're in a much stronger position than where we would be. I think for us, to come out and argue that we would be delivering 15% dividend growth year over year beyond 2018, I would not subscribe to that, I think that by its nature and the amount of capital that is ultimately required in the system begins to get away from you. If I think about where our stock is trading, I'm pretty our stock is not trading at a level that investors are anticipating us delivering 15% dividend growth as well.

Nate: Could you talk a little bit about ESG, Environmental and Social Governance, and you and I have had this conversation in the past, and I was curious whether or not you guys have made progress in getting listed in the ESG indexes, and then what is required of NRG Yield to become listed if you're not listed?

Chad: Well, it's interesting, I think, Nate, at least my experience thus far, is I haven't, unless you tell me something differently. I haven't seen a prescription per se of exactly what constitutes an ESG investment. What I have seen is different ESG type of funds have different parameters as to what would an investment ultimately qualify for. Now, irrespective of that, if I think about the intent of ESG investing, the investment to help environmentally-sound businesses, sustainable businesses, if I look at our platform when 65% of our cash flows are generated from renewable energy, that seems pretty environmentally friendly. When I think about the remaining part of our cash available for distribution and I've talked about our big conventional assets, our conventional assets, while they are a fossil fuel facility, they are predominantly located in California, and the reason why that's important is those assets were originally procured from a reliability perspective in order to help support the growth of renewable energy. As you know, with renewable energy, one of the items that makes renewable energy more complex in the power system, is that it's an intermittent resource where you can't predict with 100% certainty when the wind's gonna blow or exactly if the sun's gonna shine and clouds don't come over it at wrong times of the day.

Chad: As a result of that, in order to maintain the appropriate balance on the grid, it's always important to have certain types of assets than can ramp up very quickly when needed in order to deal with that grid attenuation, if you will. Our assets that we have were built for that purpose. They're deep in the low pocket, they all are fast-start type of products, so I bring this is up is even if they're fossil fuel, they're there for a reason, which is to help support renewable energy, and then importantly, the last thing I leave you with, there's few things for sustainable, from my perspective, in the power business than district energy. Why? Anytime you're building a centralized system to avoid multiple businesses, customers to implement their own kind of generation in their facility, it creates a certain of degree of efficiency in the system, they're highly efficient.

Chad: When I think about our platform from an infrastructure perspective, I fundamentally believe that NRG Yield today makes perfect sense for ESG investing. It meets many of the criteria that I would imagine any type of ESG investor would be interested in. I think it's just- I haven't seen enough evidence of how to make it work, and I think there's, from what I can tell, there tends to be a fair amount of variability in what the requirements are, but as I said, I think if there's an ESG investment in this space, we would make a tremendous amount of sense for it.

Nate: Yeah, okay, no, I appreciate that. With a portfolio of assets that have long-term contracts and your yield where it is, and you're still growing the dividend, it doesn't seem like the evaluation makes a ton of sense today. What do you think the market is missing?

Chad: It's a good question, Nate. I mean, look, I think for us today, I would say, there's elements that the market's missing, but there's also, so there's more systemic and idiosyncratic stuff, I think the reality of it is I'm sensitive to the fact that we're in the middle of trying to close a transaction with a new sponsor; obviously we're excited about the new sponsor, but I do know many investors wanna hear from the sponsor, not just from the management team here, and I think that's fair and reasonable, so I do think there is an element in the market whether or not it's a discount or not that folks wanna hear from the new sponsor, so I definitely think that's something that's out there, and with that comes how do we think about growth long-term, the duration of that growth, and whether or not there's changes in strategy, et cetera, so I appreciate that that's just an open item for investors.

Chad: Not only is GIP stepping in to buying the shares of Yield from NRG, but they're buying the development and operating platform that NRG had had, and I think that folks have in this is that is not a platform that, that that is a sizable platform, one with a tremendous amount of opportunity, and I think we look forward to the day when we can provide a little more color around what that team has been doing, and how they're build, and I think that'll help put a little more credence behind the development engine that NRG had created and GIP will hopefully be able to take to the next level.

Chad: I think maybe more discrete, coming back to one of the things I was talking about earlier, I do think the market sometimes ignores the amount of cash flow we have, I mean, as I talked about, we generally focus of CAFD for obvious reasons, but we do have a pretty credit-supportive platform, we pay back a lot of debt every year, so the amount of cash that we allocate could actually be looked at with a different lens versus just focusing on CAFD, and I think if you put that kind of perspective on it, it can give you a different perspective. The last thing I would just say is, for me, if I just think about this holistically, a lot of is what is it that you want to invest in, and for me, one of the things that's always exciting to me about NRG Yield and this platform is, there's really just not a lot of pure play investments that for a public equity investor, to be able to find opportunities to invest downstream in this industry with a very acute focus on what's really comprising the 21st Century type of generation assets.

Chad: New renewable assets, conventional assets that are in the portfolio to help backstop and provide reliability support for those assets, bear in mind, our portfolio has a weighted average age of I think right around five years, so it's a very young portfolio as well. To further that point, as I think about capital allocation, we also have a very aligned approach to the nature of our assets. We have long-term contracted assets, which by their nature are about current return over the long-term, and we've aligned capital allocation philosophy in that way, so for me, I think about it is if that if you wanna invest in this industry and you wanna invest in the area of growth, we are definitely a way for investors to invest without necessarily the complexity of other market participants.

Nate: Yeah, no, I can appreciate that a lot, just given the fact I used to work as a power developer, which you know, when people look at from NRG's perspective, they probably look at it and say, "Ah, NRG is getting rid of this cost center," and maybe some investors look at it like well, there's a cost center that's being shifted along with NRG Yield, but there is significant value, in my opinion, there's significant value associated with that cost center because they're the guys that are creating growth, and if you've got a great development team, then the return on investment in that group is probably quite significant, and that development business has some value, and I don't think many people are attributing very much value to that business.

Chad: Yeah, and I think for us, what I would say is value in the development business for us does not inure by us deploying capital into development, the value of the development is having a sponsor who's willing to deploy the capital and commit to the yield vehicle in order to help drive the growth if needed. I think for us, we want investors to own us and pay for the growth by virtue of our sponsor taking on that kind of development risk, so it's a spread of where the returns come from, as we think about the allocation of capital, there might be a small amount of development we do, like in the thermal business, but as it relates to true capital allocation, the preponderance of what we're sending out is in the form of a dividend, and that's what we expect.

Chad: I would not anticipate us deploying a significant amount of capital directly to development of the yield, I don't think.

Nate: Knowing what you know, and this is just something that I try to ask all of the c-suite guys that come onto the program, but knowing what you know about your business and assuming you weren't currently an NRG Yield shareholder, what do you think is the most important thing you'd need to get comfortable with or learn more about before making an investment in NRG Yield?

Chad: I think I would put in two buckets: I think Bucket 1, given where we are today, and I think it aligns with where we are, I do think it is fair for any investor to get more comfortable with a change in sponsorship for the type of vehicle we are. I think having a little more visibility and understanding as to who the sponsor is and how they think about the investment is something that would be important. That being said, I think given the nature of what we announced and the information that's already been publicly disclosed, I think investors can start getting some confidence into GIP as a sponsor. The type of transaction that they announced, that we announced, it was pretty clean, there wasn't an introduction of IDRs or anything like that with regards to how they thought about underwriting new investment, so I think we started out with a partner who's already committed.

Chad: Bear in mind that even before we executed or closed this transaction, GIP has already made sizable commitments, they've agreed to backstop an acquisition, which will require a fair amount of capital formation for us in the Carlsbad transaction. They made investments to safe harbor wind equipment to maintain eligibility to be able to generate production tax credits on new project development. These are all things that NRG would not have done, so for me, at the end of the day, the proof is always in the facts.

Chad: I think the facts even before we closed the deal should start to lend support on the quality of the sponsor that we hope to have in the near future when they close. I think the other thing that I'd want to have some confidence in given the nature of the vehicle is how the management team works in the context of a controlled company in partnership with the govern instructor to ensure everybody's comfortable, that conflicts are handled correctly, and the reason why that's important is is that when you deal with controlling shareholder, and it's controlling sponsor, and transactions are moving between the parties, investors will want to have some confidence that there is somebody working for them, or looking out for them.

Chad: We are a yieldco that has a permanent management team in place, we have a conflict committee with independent directors that remains in place. They're the ones that approve all the transactions by and between the sponsor or the controlling shareholder in the yieldco, and I think the history with how that's performed historically is one that I would like to believe investors would have confidence in, that is the continuity of that exists, you do have folks looking out for the minority shareholders, despite the fact that the minority shareholders are gonna be economically aligned with the controlling shareholder anyways.

Nate: No, I appreciate you highlighting those two things, 'cause I would imagine that you get a lot of questions about those two things during investor meetings, so thank you very much. Last question, just whether or not you have a funny or interesting story from a sale side conference or an investor meeting that you wouldn't mind sharing with the IwtB community.

Chad: Maybe instead of pointing to one thing, I'll provide an observation, so I remember in our sector, in 2015, as you know, Nate, was an incredibly difficult time of people investing or investors in the energy sector. In fact you had a washout of multiple funds that went under, you had a lot of people exit the space, and I think one of the things when I became the head of investor relations for NRG Energy, and you begin to meet people, there is a different perspective, and one of things I do know is stock-picking can be an incredibly stressful endeavor when you are measured not always on a long-term basis, but you're measured on short-term metrics, and the interplay of that can be quite stressful when you're investing in areas of the business of industry that are long-cycle businesses. Which is like what we are, so when you're dealing with short-term volatility, you have to be able to sort of manage that, because a short-term volatility in the equity capital markets are always gonna exist.

Chad: But that can create some consternation when you're a long-cycle business, and I remember in 2015, dealing with investors, and I won't say who, but I remember several investors literally calling me up just asking me, "Can you speak to me?" and it wasn't even so much as to tell me, "Can you tell me anything?" it was literally like, "I'm a big investor in your platform, and I just need to hear your voice." It was a little bit of, almost embarking on an area of just providing support to our investors because it is a stressful thing, and when you see money and your values move around on a day-to-day basis, and by virtue of that, when you get the extreme volatility, I've become extremely sensitive to what that can look like on when you're on the by-side, but what is difficult in that environment is you always have to have a long-term view for value, and I think there is a lot of very famous investors who have thrived on that kind of behavior, and proven that the most successful way to invest is to sometimes take advantage of that kind of volatility as well, so having a long view is not a bad way to go.

Nate: Yeah, no, I couldn't agree with you more, and I'll be honest, I think this is one of the best, even though you weren't prepared for it, I think this is the best story that the IwtB Podcast has received so far, so-

Chad: Well, there you go, there you go.

Nate: Well, I really do appreciate it, Chad, more than you know.

Chad: You bet man, alright, I'll talk to you.

Nate: Alright, yeah, you take care.

Chad: Bye-bye.

Nate: Alright, bye-bye.