

**Pennsylvania Executive Energy Conference
Hershey, Pennsylvania
Opening Keynote Address
Mauricio Gutierrez, President and CEO, NRG Energy**

Thank you for the kind introduction and good afternoon. I want to start by thanking John Hanger for the invitation to talk to you today. I appreciate the chance to participate in what looks to be an excellent discussion over the next two days about the regional energy markets.

I am particularly excited to share my perspective right here in Hershey, Pennsylvania. I know most people may think of chocolate when they hear Hershey, but being here, I actually think of energy innovation. Because let's not forget that we are right next to the Marcellus Shale, one of the best examples of the shale gas revolution. It only seems appropriate to hold a discussion on competitive markets in a region that has seen one of the most impactful disruptions in the energy sector in recent history.

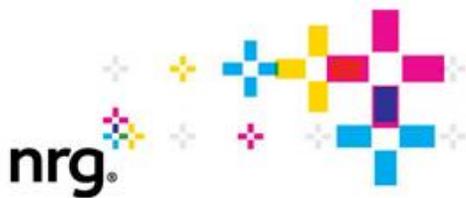
Natural gas today is an abundant, cheap source of fuel that has greatly changed the landscape of the power industry. It has also made manufacturing in the U.S. more competitive in the global market.

But let's think for a minute about how this happened. It can all be traced back to competitive forces. The competitive gas market started signaling the need for additional resources – *remember gas at \$14?* – and producers reacted and invested accordingly in innovative technologies to produce gas better, faster and cheaper. This innovation drove shale gas to displace other forms of production, like offshore gas, and today Americans are enjoying the benefits of innovation and competition.

This leads me to our discussion today. Just think of what can be achieved if we continue to allow competitive market forces to dictate the best path forward. We are in unprecedented times in the power industry, and the decisions we make today will determine how consumers – the citizens of this commonwealth – will benefit from the growing number of technologies and energy choices that competitive markets provide.

As one of the leading competitive power companies in the country with generation facilities in more than 20 states and more than three million retail customers, NRG has seen the benefits of competition both in wholesale and retail markets. Today, I'd like to address the challenges our markets are currently facing and the steps we can take to put consumers in the driver's seat when it comes to their energy choices.

Before I get to the details, I'd like you to take a moment to envision a future energy market – here in Pennsylvania – where consumers have at their fingertips all the tools and services they need to thrive in the 21st century economy. An energy system that is safe, reliable, resilient and increasingly clean. And where consumers are well informed, engaged and able to buy and use energy in the way that creates the most value for them; I believe this is the energy future Americans can have and will have.



Technology is starting to enable this vision – smart thermostats and appliances, distributed generation, clean energy – just to name a few, are a reality today. And once consumers realize the power they can exercise over energy production, usage and pricing, they will demand a system that supports them.

Pennsylvania can take a leadership role in creating the nation’s energy future – just like the leaders of this commonwealth have done many times in the past. It begins by embracing full and free competition. Protecting incumbent monopolies and subsidizing old uneconomic power plants and technologies will only result in increased rates on our citizens and compromise forward progress. Pennsylvania: no pressure here, but the actions you take today will define the future of our industry for years to come.

Let me start with some of the challenges in the wholesale energy market. For decades, Pennsylvania has been a part of PJM, which is a regional power pool, regional transmission organization and regional power market. You have long recognized that this regional approach to power markets increases reliability, fosters competition and creates value for all market participants.

This market has evolved over time. Through the years, Pennsylvania has consistently moved toward more regionalization and more competition. The commonwealth has a track record of pushing back strongly against incumbent monopolies seeking to impose massive and unnecessary costs on consumers.

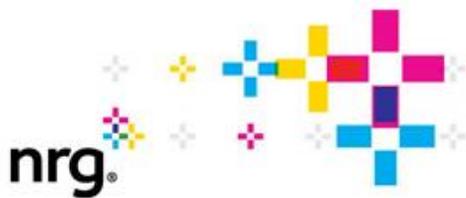
More than 30 years ago, the legislature took bold action to protect consumers against enormous costs that the incumbent utilities wanted to impose on consumers. At the time, utilities were seeking the recovery of massive nuclear costs from captive consumers for plants they thought they needed but ultimately were cancelled.

Pennsylvania changed its laws to protect its residents, and to prevent what would have been for all intents and purposes a nuclear bailout for the utilities at the expense of consumers. The utilities fought the commonwealth all the way to the U.S. Supreme Court. But in the end, the Supreme Court said that what Pennsylvania had done in the interest of consumers was just fine.

It’s ironic that right here, right now, we are seeing owners of nuclear plants make another run at it. And this time, it is not just in Pennsylvania and not just nuclear plants. Requests to subsidize uneconomic plants are happening in a number of states, from nuclear to coal generators. As an owner of nuclear and coal plants, I have no sympathy for these requests.

Shale gas is now cheap and plentiful, and renewables are becoming more widespread and economic. Instead of getting innovative, some generators are asking for bailouts.

Competition in our markets provides the path forward but the owners of these plants – and we all know who they are – are begging state legislators and regulators to put in place new subsidies to keep their uneconomic plants profitable. Call them ZECs or whatever else you want, but let’s just be honest with ourselves, these are taxes that would be imposed on the Pennsylvania citizens – to benefit a few well-connected companies.



Regulators and legislators who give in to this kind of pressure are standing in the way of what is best for consumers and inflicting grave damage on the regional competitive market. These markets were designed to be wholly competitive and do not work when subsidies for select generators are introduced.

NRG's position is pretty simple. Yes, we believe significant reforms are needed in the regional power markets to properly price the services that generators provide. And yes, we believe those reforms are urgently needed, as highlighted by the Department of Energy on their staff report on electricity markets and the Notice of Proposed Rulemaking. But we absolutely and unequivocally oppose state subsidies that are discriminatory, favor one form of existing generation over another, and seek to defeat the economic outcomes of the competitive regional market.

Now let's talk about retail. Pennsylvania was one of the first states to take important steps to bring competition to its retail electricity sector. This allowed providers such as NRG to come and participate in this market. But unfortunately, competitive providers are limited in the types of services they can offer and the relationships they can have with their customers. There are still key pieces that are missing to ensure we have a thriving competitive retail market.

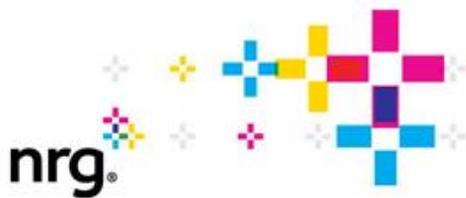
For example, in a fully competitive market, electricity providers are incented to provide additional value to the customer beyond just the price of the commodity. They have diverse payment plans like flat-billing or pre-pay options. They are bundling additional home services like security and smart heating and cooling into their core offerings. They have online apps that are powerful tools to interact directly with consumers and unlock additional value. Enhancements like these are generally absent from the Pennsylvania market given the restrictive role of competitive retailers, and that makes it very difficult or even impossible, to offer these benefits to consumers.

Pennsylvania has the opportunity to become the leader in the electric sector by meeting the new demands of these consumers. Pennsylvania has done the most among the Northeast states to advance its competitive energy markets, but more is needed. Consumers will not ignore new technologies just because the regulatory framework doesn't allow them or support them.

We are already seeing dramatic changes driven by innovation on how consumers buy, manage and use energy. The internet of things, smart home appliances and distributed generation are going to bring consumers and energy closer than ever. This change is going to happen no matter what.

The only question is whether policymakers will help bring about these changes in an intentional, orderly way – or whether change will happen chaotically and swamp the current regulatory system, market participants and consumers.

Before I get to a framework on how to move forward, let me address the current issues in the retail market.



So far, the value proposition in the Pennsylvania retail market – and for that matter, in all northeast markets today – centers on price, but it is value that we should be striving for. Value comes from innovation, but the types of products and services that retail consumers see in Pennsylvania today only scratch the surface of what could be done in a fully competitive market.

Obviously, it is a good thing that suppliers have to compete based on price, among other things. But when retail suppliers are forced to compete with a regulated Price to Compare (PTC) offered by incumbent utilities, suppliers are faced with an unlevel playing field.

Most everyone in this room recognizes that the PTC represents an artificial price comparison, and that it does not offer a true, apples-to-apples comparison of costs and services. But most consumers just don't know that.

This PTC is really just a pass-through of wholesale power costs. It does not reflect the many parts of the supply chain – and the many costs – associated with providing electricity to consumers. It does not, for example, include costs associated with running a customer call center or IT, legal, regulatory, selling, marketing or accounting costs. Incumbent utilities can recover these costs through other means such as wires charges, while competitive suppliers cannot.

Customers are being educated to look for savings compared to the PTC when they shop. "Introductory" and "variable" pricing offers tend to be the lowest price offers in the market and many customers are choosing these products. But both get a lot of negative attention from policymakers. The irony here is that it is the policies and rules in place today that drive consumers to these products. We need to move to a more transparent competitive market, because it is that market that will deliver real choices and real value to consumers.

The unintended barrier to entry, which enables utilities to recover these costs by other means outside of the PTC, is further augmented by the roadblocks that the regulatory system imposes on how retail suppliers communicate with their customers. We are 20 years into competitive retail markets in Pennsylvania, and yet we continue to have the regulated utilities playing a central role. They not only supply the electricity or natural gas, but also control all transactions and interactions between competitive suppliers like NRG, and our customers. This even includes customer switching and billing for the services the retail supplier provides.

Let me be clear: the competitive supplier does all of the marketing, advertising, customer acquisition, and energy procurement work – all of which gets included in their prices – and then the utility acts as a gatekeeper over the supplier's customer interactions. Think about it in these terms: how could Amazon succeed if we had to shop, place orders and pay through FedEx or the Post Office?

What's more, each utility has its own different business rules and requirements. Instead of a single standardized way of transacting across the commonwealth, we have at least four sets of business rules that require customized solutions by suppliers, driving the cost to participate in this market ever higher. It's actually quite remarkable that the retail market works as well as it does.



To summarize, the deck is stacked against businesses that compete to attract customers away from the regulated utility. Keep in mind that the utility (1) gets cost recovery for every product and service they offer, regardless of whether that product succeeds or fails; (2) has enormous brand recognition it inherited from decades as being the only game in town; (3) thinks and acts as if it “owns” the customer; (4) determines if and when a customer switches suppliers; and (5) is the default supplier against which all other competitors must compete.

So how do we help this market evolve? What do we need to do to unleash the creativity, innovation and entrepreneurial forces that will bring Pennsylvania’s energy industry into the 21st century? How do we deliver value to consumers and better align the role of the utilities and competitive companies so that they can do what they do best? And can we do this while still achieving the policy goals associated with renewable energy, energy efficiency and grid modernization?

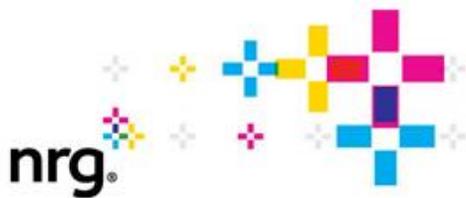
The answer is yes, we can.

The way I see it, there are two possible paths for how we get there. The first one is what happened to the taxicab industry when Uber and Lyft came along. These businesses were enabled by new technologies and innovative thinking. They addressed a specific consumer need that the taxicab service was not providing. After the new technology emerged with a better product, consumers demanded access to these new services, and the regulators found themselves behind the curve in adjusting the regulatory framework.

The other path is more proactive. Rather than play regulatory catch-up to the technology, regulators and competitive innovators should work together, as these technologies are emerging, so that we can figure out the new competitive framework together. That way, as consumers become increasingly sophisticated when it comes to energy choice, the rules will already be in place, allowing for a smoother transition. This seems to me a better path. So, let’s focus on what needs to be done to stay ahead of the next wave of consumer-enabling technologies.

I offer you the following recommendations and changes to the energy market. I am confident that if we work together this can be achieved by 2020.

- First, the tariff structure under which the utilities operate needs to evolve to better support their core business of transmission and distribution. Rather than enabling the utilities to offer retail or generation products that are better provided by competitors – whose survival is based on their ability to meet customer demands better, faster and cheaper – policymakers need to keep utilities focused on their core business of growing and modernizing the delivery network that is essential for competitors and customers alike.
- Second, we must update our power markets so they recognize and compensate all services that generators provide to the system. Out-of-market subsidies are not the solution. But changes like capacity performance that rewards reliability, price formation improvements (like the ones suggested by PJM) or competitive RFPs for zero carbon generation are desirable market-based solutions. This will be less costly



to consumers, and will encourage continued innovation and improvement of both technologies and service.

- Third, it is time to standardize the business transactions that enable customers to shop and choose products, services and suppliers. Just as we rely on PJM to manage Alternative Energy Credit transactions, PJM should take on the role of facilitating all other market transactions associated with customers exercising their choices, like processing customer switches and facilitating the sharing of meter consumption data for billing purposes.
- Finally, competitive suppliers must have the ability to establish and build relationships with their customers. Supplier consolidated billing is essential to this relationship, and it is essential to unlocking innovative payment plans and bundled products. Consumers demand simplicity and convenience. They want a single energy bill that includes not only the energy needed to keep their lights on and houses warm, but also the other products and services that deliver value to them – whether it's home security or energy efficient devices that help them use energy more wisely.
- Importantly, the bill for these services should come from the company providing those services. When we buy something online, we don't pay FedEx or the U.S. Postal Service for the goods and services you've ordered and that are delivered to your home. The delivery company delivers, but that doesn't mean it is the middleman for everything you order. There is no reason the delivery of energy should be any different. In Texas, NRG sends out more than two million bills each and every month that include the delivery charges from the local utilities. Suppliers do this all the time in that market. It works and we should do it here in Pennsylvania.

Let me conclude by saying I am very optimistic and excited about the energy future here in Pennsylvania and throughout the country. With your continued leadership, I am confident we can move our markets forward to meet the demands of consumers who are eager to take more control over both their energy consumption and their impact on the environment. I can think of no better legacy for the leaders of the Commonwealth of Pennsylvania, at this time in history, than to take bold steps to build the most advanced energy market in the country.

I want to thank you for your time. My colleagues at NRG and I look forward to working with you to bring the competitive energy future that Pennsylvanians want and deserve.