The Dallas Morning News

Vistra's plan for success: Go lean

By Mitchell Schnurman | January 22, 2017

The housing bust and financial crisis almost feel like old memories, because most homeowners and investors have more than recovered their lost ground. Not so in the power industry.

Consider the former TXU Corp., the Dallas company that includes the state's largest power generator, largest electricity retailer and largest operator of regulated transmission lines. Today, its businesses are worth just under $30 billion.

That's about the same as in 2004 — and almost $17 billion lower than a decade ago, when commodity prices were rising and private equity firms bid up the value of TXU to take it private.

They renamed it Energy Future Holdings, invested billions in new plants and started hiring. They also created separate boards, management teams and headquarters for the three businesses: Luminant, TXU Energy and Oncor.

And they saddled the operation with about $30 billion in new debt. That debt was largely stripped away in Chapter 11, along with other remnants of an organization once built for growth and expansion.

Oncor, a key part of the group, is in the process of being sold to pay off creditors. Luminant and TXU Energy, known as the competitive businesses, emerged from bankruptcy in October with creditors taking control. The parent company was soon renamed Vistra Energy Corp.

How will Vistra try to thrive in a post-bubble world that shows no sign of bouncing back? Get lean, real lean.

"We know what got us into trouble and we're not going there again," said Curt Morgan, who recently became Vistra's CEO.

This week, he talked about the company's prospects in an interview at the corporate headquarters in downtown Dallas.

About $33 billion in debt was eliminated through bankruptcy, a process that took two-and-a-half years (and continues for some parts of the old organization). Vistra's debt ratios are now about two-thirds lower than its major rivals', and that will have a big effect.

In 2008, annual interest for the competitive businesses topped $4.7 billion. This year, that's estimated to be $186 million.

In 2008, they spent almost $2 billion on capital improvements. This year, they plan to spend about $300 million, including the cost of nuclear fuel.

Overhead has been cut deeply and is headed lower. About 1,100 jobs have been eliminated since spring 2014, when the Chapter 11 filing was made. That's a reduction of nearly 20 percent of the workforce.

While the layoffs are probably over, the company still has offices in both Dallas and Irving. Morgan wants one location for the company, preferring an open office with a large footprint, rather than a high-rise. Vistra has 4,500 employees, about 1,300 in the Dallas area. He expects to make a headquarters decision early this year.

Morgan, 56, helped lead Mirant Corp. through bankruptcy in the mid-2000s, and

he said it was vital to have low overhead and little debt.

"The drivers that put us into bankruptcy are still in the marketplace," he said.

The supply of natural gas and renewable energy keeps growing, and that keeps driving down wholesale electricity prices. While that's great for consumers and businesses, it's tough on producers like Luminant.

In 2008, the average annual price of wholesale electricity in the ERCOT grid was $77 per megawatt hour. Since then, the price has fallen to less than $25. That's the lowest since Texas' residential market was opened to competition in 2002.

The value of Luminant's coal, gas and nuclear plants have tracked the decline. Those assets, which account for about 18 percent of ERCOT's generation capacity, were valued at $30 billion in 2009. Six years later, they were worth $9.4 billion, according to the company's public filings.

Curt Morgan, CEO of Vistra Energy, expects to make a decision about the company's headquarters early this year. (Vistra Energy)

One way to improve Luminant results is to upgrade the generation units. A coal plant may require 200 workers while a new natural gas plant requires about 20 people, Morgan said. A utility-scale solar operation has even lower labor costs.

"If we have our cost structure right, we can actually win," Morgan said. "We can be the guy that's consolidating in this business."

TXU Energy, the retailer, has become more valuable in recent years. With popular products and strong customer service rankings, it's held on to more customers while maintaining strong margins. Because it's the incumbent — the provider before deregulation — it will continue to lose some business. But that's by choice.

"We've done the math: It's better to have a little attrition than to try to hold on to every customer," Morgan said.

The opportunity to grow the retailing segment will be in acquisitions, he said. And in the company's low-frills, low-price unit, 4Change Energy.

Last month, Vistra borrowed $1 billion to pay a special dividend to shareholders. Most of the money went to private equity firms that received stock when Vistra exited bankruptcy. Morgan, who's on the board and bought shares worth $1.25 million when he joined, defended the move.

Most bond investors lost money, including those who bought late in the process, he said. The payout from the bankruptcy was worth about 30 cents on the dollar, and many bought in for twice as much.

"We thought it was prudent to give them some of their money back," he said.

But borrowing to pay a dividend won't become a regular thing.

"I'd guess we'll never do this again," Morgan said.