

## US Utilities &amp; IPPs

## Data center monetization a blueprint for the sector: Positive merchant nuclear

Industry Overview

**Nuclear: Data center transaction announced with AWS**

Nuclear-focused independent power producer (IPP) Talen Energy (TLNE - Not covered) announced it has reached an agreement to sell its data center campus to AWS for gross proceeds of \$650mn, representing a multiple of over 2.5x on invested capital. As part of the agreement, TLNE will supply nuclear carbon-free power to at a fixed price over an initial 10-year term. After the initial ten years, the supply agreement will reprice at a fixed margin above PJM West Hub pricing. The terms of the agreement dictate minimum contractual power commitments that will ramp in 120-megawatt increments to a minimum of 480MW by 2028 and a maximum of 960MW by 2034. AWS has two 10-year extension options under the agreement.

**Value of carbon has implications for covered companies**

Based on the deal terms, the minimum pricing for the initial 10-year supply agreement appears to be in the low- to mid-\$20s/MW-hour (MWh) premium to PJM West Hub pricing. Assuming additional revenue from the sale of CFP, pricing appears to be in the ~\$30/MWh range. Constellation Energy (CEG) recently showed scenarios in its 4Q23 update with \$10/MWh and \$20/MWh carbon free power attribute payments.

**Positive read-through to the sector**

This is the first public nuclear power data center agreement we have seen and a pivotal update for the IPP sector. We and other investors have been closely watching for signs of power plants' ability to monetize reliable electricity and infrastructure at a premium, a contrast from prior years. The deal marks an important read through to our coverage as the theme of data centers and their impact on power prices continues to spark investor interest. Additionally, the deal's pricing is above where we have previously expected such transactions. See page 2 for economics of the deal.

**Focus on the unregulated nukes but regulated too?**

Companies with merchant nuclear plants in the US are Constellation Energy, Vistra (VST), Public Service Enterprise Group (PEG), NextEra Energy (NEE), and Dominion Energy (D). Regulated nuclear companies include Duke Energy (DUK), Southern Company (SO), Dominion, Energy (ETR), Pinnacle West (PNW), and PG&E Corp (PCG). The attractive all-in power price opens up interesting permutations where even regulated utilities could explore partnership for the benefit of ratepayers, creating additional bill headroom. Entergy, in particular, with a large regulated nuclear footprint relative to its market cap stands out. Could Entergy's Grand Gulf (SERI) find a path forward? Reliability/capacity factor of nuclear units is an important factor as well.

**Can renewable companies benefit in the 'land rush'?**

Investors we speak with have been almost entirely focused on nuclear opportunities with data centers with far less attention on the renewable developers. AES Corp (AES) recently increased its renewables internal rate of return (IRR) guidance assumption prospectively, a favorably development. We will be closely watching if this trend can continue and expand to peers.

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IPP: Independent power producers

CFP: carbon-free power

AWS: Amazon Web Services

MW: Megawatt

MWh: Megawatt hour

TWh: Terrawatt hour

PJM: Mid-Atlantic power grid

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If these economics are replicable, this would be positive for other IPP peers.

### Exhibit 1: TLNE disclosed EBITDA uplift from AWS deal & implied contractual pricing

Mgmt. discloses three scenarios (High, Low, and Minimum) outlined below

Talen Energy		2025	2026	2028	2031	2034-'42
EBITDA Uplift (\$Mn)	High	\$35	\$80	\$140	\$215	\$255
	Low				\$150	\$135
	Min	\$20	\$55	\$85	\$125	\$75
Megawatts (MW)	High	120	240	480	840	960
	Low	120	240	480	480	480
Terrawatt-hours (TWh)	High	1.05	2.10	4.20	7.36	8.41
	Low	1.05	2.10	4.20	4.20	4.20
Contractual Rate (\$/MWh)	High	\$33.30	\$38.05	\$33.30	\$29.22	\$30.32
	Low				\$35.67	\$32.11
	Min	\$19.03	\$26.16	\$20.21	\$29.73	\$17.84

Source: Company filings and BofA Global Research estimates

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