

# **PPL Corporation (PPL) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

August 2, 2024 Friday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 6898 words

**Byline:** SA Transcripts

**Body**

PPL Corporation (PPL)

Q2 2024 Earnings Conference Call

August 02, 2024 11:00 AM ET

Company Participants

Andy Ludwig - VP, IR

Vince Sorgi - President and CEO

Joe Bergstein - CFO

Conference Call Participants

Shar Pourreza - Guggenheim Partners

Durgesh Chopra - Evercore ISI

David Arcaro - Morgan Stanley

Julien Dumoulin-Smith - Jefferies

Ryan Levine - Citi

Anthony Crowdell - Mizuho

Presentation

Operator

Good day and welcome to the PPL Corporation Second Quarter 2024 Earnings Call. All participants will be in a listen-only mode. [Operator Instructions] Please note today's event is being recorded.

I would now like to turn the conference over to Andy Ludwig, Vice President, Investor Relations. Please go ahead.

Andy Ludwig

Good morning everyone and thank you for joining the PPL Corporation conference call on second quarter 2024 financial results. We provided slides for this presentation on the Investors section of our website.

We'll begin today's call with updates from Vince Sorgi, PPL President and CEO; and Joe Bergstein, Chief Financial Officer. And we'll conclude with a Q&A session following our prepared remarks.

Before we get started, I'll draw your attention to Slide 2 and a brief cautionary statement. Our presentation today contains forward-looking statements about future operating results or other future events. Actual results may differ materially from these forward-looking statements.

Please refer to the appendix of this presentation and PPL's SEC filings for a discussion of some of the factors that could cause actual results to differ from the forward-looking statements.

We will also refer to non-GAAP measures, including earnings from ongoing operations or ongoing earnings on this call. Reconciliations to the comparable GAAP measures please refer to the appendix.

I'll now turn the call over to Vince.

Vince Sorgi

Thank you, Andy and good morning everyone. Welcome to our second quarter investor update. Let's start with our financial results and a few highlights from our second quarter performance on Slide 4.

Today, we reported second quarter GAAP earnings of $0.26 per share. Adjusting for special items, second quarter earnings from ongoing operations were $0.38 per share. Backed by another strong quarter, today, we reaffirmed our 2024 ongoing earnings forecast of $1.63 to $1.75 per share, and expect to achieve at least the midpoint of our forecast range.

In addition, we continue to make excellent progress in delivering on our 2024 priorities. We're on track to complete approximately $3.1 billion in infrastructure improvements this year to advance a reliable, resilient, affordable, and cleaner energy future for our customers.

Subscribe to Seeking Alpha for more content like this

We're on pace to exit our remaining transition service agreements with National Grid in the coming weeks and to complete what has so far been a seamless integration of Rhode Island Energy into PPL. Lastly, we expect to achieve our annual O&M savings target of $120 million to $130 million this year, which is compared to our 2021 baseline O&M.

Looking ahead, we're well positioned to achieve our projected 6% to 8% annual earnings per share and dividend growth to at least 2027. We remain as focused as ever on executing our capital plan, which includes $14.3 billion in infrastructure improvements from 2024 to 2027.

And across PPL, we continue to drive efficiencies through our Utility of the Future strategy, keeping us on pace to achieve our annual O&M savings target of at least $175 million by 2026, again, compared to our 2021 baseline.

Moving to Slide 5, I want to reiterate our Utility of the Future strategy, which in a nutshell is to deliver a net zero energy system by 2050, but one that continues to be reliable and affordable for our customers.

The decarbonization strategy here in the U.S. and even globally, is to electrify as much of the economy as we can and generate the needed electricity with no or low carbon solutions.

This will significantly increase the demand for electricity, currently estimated at 2 to 3 times our current levels. But it also requires the electricity grid to be significantly more reliable and resilient than it is today.

Our Utility of the Future strategy addresses this challenge head on across multiple focus areas. First, we will improve the reliability and resiliency of our oil and gas networks through updated design criteria and system hardening to better protect against more frequent and severe storms; through automation, AI and smart grid technology that offers self-healing grid capabilities; through grid-enhancing technologies that help us extract the most from existing infrastructure; and through robust and ever-evolving cybersecurity that protects against present and future threats.

At the same time, we will continue to advance the clean energy transition affordably and reliably. We'll achieve this by transitioning to a reliable, affordable and cleaner energy mix, one that includes an important role for dispatchable natural gas as we retire aging coal-fired duration.

We'll do it by positioning the grid to connecting renewables, including behind-the-meter resources. And we'll do it by continuing to lead, partner and invest in R&D to accelerate the commercialization of low-carbon technologies needed to achieve net zero, technologies such as advanced nuclear, carbon capture, hydrogen and long duration energy storage.

This includes the recent partnerships we've made with the Department of Energy to explore the feasibility of coal to nuclear transitions at some of our power plant sites in Kentucky, and a leading carbon capture R&D project at our Cane Run combined cycle gas plant.

Subscribe to Seeking Alpha for more content like this

Our Utility of the Future strategy also includes driving sustainable efficiencies to keep energy affordable for our customers as we invest in the clean energy transition. For every dollar of O&M we can take out of the business, we can invest about $8 in capital without impacting our customers' bills. This is why becoming more efficient is such an important part of our strategy and helps to keep the transition more affordable for our customers.

We are also focused on using AI and other advanced technologies more broadly, which will drive further efficiencies and improved results. We are starting to see firsthand the power of AI and how transformational this technology will be to our business.

This includes balancing the grid in peak shaving, empowering our customers and enhancing their experience with our utilities, and further improving reliability while lowering our costs. The applications of AI technology are tremendous for our industry and we are extremely focused to unlock that potential to deliver real value.

And finally, we'll continue to engage and lead discussions with a wide range of stakeholders to strengthen resource adequacy in the regions we serve, specifically including markets like PJM, which is even more critical following the capacity auction results that were just released this week.

With increasing demand and tight supply, we need to do everything we can to protect our customers from such price volatility, including investing further in transmission upgrades to alleviate constrained zones, incorporating additional grid enhancing technologies to get as much as we can from existing lines, and advocating for legislative changes in Pennsylvania that would drive needed generation development, including authority that would support regulated utility investments in new generation.

Collectively, these actions will not only maintain reliability, but also power economic development, while at the same time, support data center growth and expansion, which we consider critical to American competitiveness and national security.

This is our Utility of the Future playbook to not only address the challenges of delivering a clean energy future that is affordable and reliable but to enable us to thrive and grow in that ever-changing energy landscape.

Moving to Slide 6 and a deeper dive on our support for data centers. Starting with Pennsylvania, we truly believe our Pennsylvania service territory is uniquely positioned to service large-scale data center connections.

First, we've invested $6.5 billion over the last decade in our transmission network, while leveraging advanced dynamic line rating technology, which together has improved the reliability of the network to top decile performance nationwide.

Our advanced transmission network as well of connecting the current data center demand in our queue and we are confident we can support even further demand should it materialize. This means we can respond very quickly to develop our interconnection requests. Our team responds within six weeks.

Subscribe to Seeking Alpha for more content like this

As a result, we now have a total of over 17 gigawatts of interconnection requests in Pennsylvania and new requests continue to come in each month. While it is likely that some of these requests are duplicative due to developers assessing multiple sites at the same time, we have nearly 5 gigawatts of potential data center demand in advanced stages of planning, up from the 3 gigawatts we discussed during our first quarter update in May.

These projects all have signed agreements with developers, are in various stages of PJM's review process with some having already completed that review, and costs being incurred by PPL are reimbursable by the developers if they do not move forward with the projects.

On the financial impact of data centers, the primary upside is in the form of additional returns on transmission investments through FERC formula rates. We estimate that the 5 gigawatts of potential demand in the advanced stages represents incremental PPL capital needs of $400 million to $450 million.

And because we operate in PJM in Pennsylvania, this data center development will reduce net transmission costs for our existing retail customers. We estimate for every 1 gigawatt of data center demand that's connected to the grid, our residential customers would save about 10% on the transmission portion of their bill.

For the average residential customer, that would represent about $3 a month in savings. For the 5 gigawatts in advanced stages of development, that would represent about $15 a month in savings for the average residential customer using 1,000 kilowatt hours a month of electricity.

Turning to Kentucky, our service territory there is better suited for midsized data centers as we also have an abundance of land and water, have lower energy prices than much of the U.S., and provide for tax incentives in certain counties that we serve.

We are also confident we can make the needed transmission and generation investments required to support continued data center and industrial growth in the Commonwealth.

We continue to work with data center developers in our LG&E and KU service territories with active requests totaling more than 2 gigawatts in the 2027 to 2033 timeframe, with about 350 megawatts in advanced stages.

As in Pennsylvania, any transmission upgrades in Kentucky would be additive to our capital plan, although the more significant capital investments in Kentucky would arise from any incremental generation investments.

Once our new Mill Creek 5 combined Saskatchewan plant is operational in 2027, we estimate to have approximately 400 to 500 megawatts of generation capacity available to support further load growth, while maintaining our prudent reserve margins.

Subscribe to Seeking Alpha for more content like this

With Kentucky coming off the best four-year period of economic growth in the state history, on top of this potential new data center demand, we continue to actively monitor our capacity needs to maintain a safe and reliable network for customers. Should new generation become necessary to serve higher electricity demand, we can use Mill Creek Unit 5 as a reference for pricing on potential new baseload generation.

That unit, which was approved by the KPSC last year, has an expected cost of $1 billion. The updated integrated resource plan, which will be filed with the KPSC in October, will guide any further generation needs.

Keep in mind, there are many factors that go into our generation planning and reserve margin analysis. We will fresh that analysis this fall and will include updated load projections and related supply needs.

As we think about possibly needing to build a second combined cycle gas plant to meet that load growth, it's important to note that we still have a spot in the queue for a second gas turbine from our prior solicitation.

It is important to highlight that our rate designs in both Pennsylvania and Kentucky protect our customers from undue burdens related to data center connections. In both jurisdictions, the data centers are under tariffs that will benefit our non-data center customer rates.

Bottom-line, as I shared last quarter, we're ready and eager to support prospective data centers and we are well-positioned to serve their needs. And the good news is that our customers, shareowners, and the states which we serve all benefit from this development.

Moving to Slide 7 and several key operational and regulatory updates. On July 11th, the Pennsylvania PUC approved PPL Electric Utilities' request to modify its current long-term infrastructure improvement plan, or LTIP. The decision grant permission to classify approximately $200 million of reliability investments through 2027 as capital eligible for recovery through the DSIC or the distribution system improvement charge.

While the PUC denied our request to classify $84 million of planned investments in predictive failure technology as being DSIC eligible, the PUC viewed our predictive failure project favorably, and indicated PPL Electric may seek recovery of these project costs in a future base rate case.

Overall, the approved modification to our LTIP represents a positive outcome that supports our continued investments to repair and replace aging infrastructure and strengthen grid reliability. Changes to the plant will be impacted during the current period, which extends through December 31st, 2027.

Also in Pennsylvania, our DSIC waiver petition continues to proceed through the process as expected. In June, an ALJ was assigned and a procedural schedule was created, which we have provided in the appendix. Based on that schedule, we continue to expect the proceeding to conclude later this year with a decision in early 2025.

Subscribe to Seeking Alpha for more content like this

Shifting to Kentucky. We recently kicked off construction of our planned 650-megawatt Mill Creek Unit 5 combined cycle natural gas plant following several months of prep work.

The new unit is part of more than $2 billion in planned generation investments over several years to economically replace 600 megawatts of aging coal generation with a reliable, affordable, and cleaner energy mix. In addition, all long lead-time equipment deliveries remain on schedule.

Overall, we're on track to complete construction and begin commercial operation of the unit in 2027. We will earn AFUDC on this capital project until it goes into commercial operations.

In addition, we secured a site compatibility certificate from the KPSC in July for a planned 120-megawatt solar facility to be built in Mercer County, Kentucky. The approval helps pave the way for final site design and construction of the new facility, which we expect to begin commercial operation in 2026.

Finally, just this week, we successfully completed another labor contract negotiation. This latest agreement covers about 60 employees in Kentucky and represents the fifth successful union negotiation over the last year, representing over 50% of our union workforce. We look forward to continued success in this area for years to come, balancing the needs of our employees and customers.

That concludes my strategic and operational update. I'll now turn the call over to Joe for the financial update.

Joe Bergstein

Thank you, Vince and good morning everyone. Let's turn to Slide 9. PPL's second quarter GAAP earnings were $0.26 per share compared to $0.15 per share in Q2 2023. We recorded special items of $0.12 per share during the second quarter, primarily due to integration and related expenses associated with the acquisition of Rhode Island Energy.

Adjusting for these special items, second quarter earnings from ongoing operations were $0.38 per share, an improvement of $0.09 per share compared to Q2 2023. Primary drivers of this increase where returns on capital investments and higher sales volumes, primarily due to the return to more normal weather conditions.

In total, we estimate that weather was about $0.04 favorable compared to the prior year and about $0.01 favorable to normal conditions. These positive drivers were partially offset by higher interest expense, primarily due to higher debt balances with the issuances at PPL Electric, Rhode Island Energy earlier this year, which were executed at attractive rates favorable to our forecast.

And we'll continue to monitor the markets and leverage our excellent credit position to be opportunistic and efficiently finance our capital plans. Our Q2 performance puts PPL's GAAP earnings at $0.67 per share year-to-date through June 30th compared to $0.54 per share through the same period last year.

Subscribe to Seeking Alpha for more content like this

Adjusting for special items recorded through the second quarter, earnings from ongoing operations totaled $0.92 per share for the first half of 2024, an improvement of $0.15 per share compared to the first half of 2023.

We estimate that weather has been $0.07 favorable compared to the first six months of 2023, while tracking slightly below normal conditions year-to-date in 2024. The full year-to-date ongoing earnings walk by segment is included in the appendix.

Turning to the ongoing segment drivers for the second quarter on Slide 10. Our Kentucky segment results increased by $0.05 per share compared to the second quarter of 2023. The improvement in Kentucky's results was driven by higher sales volumes, primarily due to the return to normal weather and lower operating costs.

Our Pennsylvania Regulated segment results increased by $0.05 per share compared to the same period a year ago. The increase was driven by higher transmission revenues and higher sales volumes due to a combination of a return to normal weather and increased usage per customer.

Our Rhode Island segment results increased by $0.01 per share compared to the same period a year ago. This increase was primarily driven by higher distribution revenue from capital investments, higher transmission revenue, and higher interest income, partially offset by higher operating costs and higher property taxes.

Finally, results at corporate and other decreased by $0.02 per share compared to the prior period, primarily due to higher interest expense. With another strong quarter behind us, we're on track to achieve at least the midpoint of our 2024 earnings forecast of $1.69 per share. I'm extremely pleased with our financial performance as we continue to execute our plan and our Utility of the Future strategy.

This concludes my prepared remarks. I'll now turn the call back over to Vince.

Vince Sorgi

Thank you, Joe. In closing, we continued our strong track record of execution in the second quarter, further strengthening PPL's investment thesis. We are implementing our Utility of the Future strategy necessary to deliver a clean energy future affordably and reliably.

We are securing constructive outcomes in key regulatory proceedings. We're achieving strong financial results, which positions us to deliver at least the midpoint of our targeted EPS growth this year and to grow earnings and dividends by 6% to 8% through at least 2027.

We're maintaining one of the premier balance sheets in our sector that supports the growing investment needs across our jurisdictions. We're advancing the economic transition of our generation fleet in Kentucky, and we're continuing to power economic development that strengthens our communities, including the support of data center expansion.

For all, we've made significant progress on our plans through the first half of the year. We're eager to build on this momentum in the back half of 2024 and beyond. And we look forward to once again delivering on our commitments to share owners, customers and the communities we serve.

Subscribe to Seeking Alpha for more content like this

With that, operator, let's open it up for questions.

Question-and-Answer Session

Operator

We'll now begin the question-and-answer session. [Operator Instructions]

The first question comes from Shar Pourreza with Guggenheim Partners. Please go ahead.

Shar Pourreza

Hey guys, good morning. Good morning Vince. Vince, just trying to get a sense on the transmission side. Looking at 400 to 450 incremental for this update. We've also seen a blowout print capacity auction potentially foreshadowing more RTEP work.

What does all this start to add up as we look at your $725 million placeholder for 2027, how should we think about the timing of the shape of that spend as we update our models for 2028 and beyond versus that 2027 placeholder you have in plan? Thanks.

Vince Sorgi

Yes, Shar. I think what you're bringing up is a good point in terms of what is capacity auction signifying, right? And clearly, I think it's showing that there's a clear signal that we do generation and transmission investments needed in PJM.

In terms of ability to invest in transmission, I think that's in a few areas. Obviously, there were the two zones that broke out above the RTO. Clearly, I think there's opportunity for additional transmission solutions going into there.

So, I think we could probably expect there to be an open window to try to resolve some of that. As you know, in the past, we've been successful in winning some projects going down into the Maryland, Virginia area. So, it could be additional opportunity there in addition to just investments in our own area.

I would say that from a broader strategic perspective, I think those auction results also would reinforce our strategy in working with the state of Pennsylvania and the other EDCs in the state to help resolve the resource adequacy concerns that many of us have been talking about for a while now, in particular, in PJM. And so we're not going to just sit back and wait for this issue to resolve itself.

We have an obligation to serve and do everything that we can for our customers, whether it's these additional transmission investments, I think we can do additional grid-enhancing technologies on the existing grid and then continuing to advocate for legislative change. So, we'll continue to push that agenda to ultimately lower the price of electricity for our customers and reduce the volatility.

Shar Pourreza

And Vince, just on -- it's a good segue right to my follow-up. But just on the broader resource question to BR. A lot of your wires peers have commented on it this week you just did.

We've had -- in the past, we've had similar attempts on this kind of reregulation of certain amount of generation over 13 years ago, right, in New Jersey and Maryland with the LCAP and MCAP program, which ultimately got struck down by the courts, it was a little bit more on the capacity side versus energy.

Subscribe to Seeking Alpha for more content like this

But I guess what's different focusing on potential generation request by the wireless companies? Where are the conversations at with policymakers? Are they waiting for the IP piece to step up and build? What's your trigger point? Should we be watching a legislative window next year, I guess, just elaborate a little bit on some of the dialogue you guys are having?

Vince Sorgi

Yes. Well, look, I think the biggest difference, Shar, is what's in the queue, right? And what we right now is significant amounts of dispatchable generation being retired with very little dispatchable generation coming on.

And so I think that's the big -- the big issue is not so much the energy play. It's the capacity play and having -- making sure that we have enough capacity to serve 24 hours a day, seven days a week, 365. So, that's really the big difference, I would say, from what we're seeing now.

And so what's being left in the market is creating real concerns around resource adequacy, I think there's a few signposts that we're certainly watching to determine what the long-term impact of this capacity option will be in terms of our customer bills, but also just on resource adequacy, we want to see what the auction results are for the 2026, 2027 planning year, which will happen in December. Same thing for the 2027, 2028 planning here. That will occur next June.

I want to see if there's any new dispatchable generation entering the queue between now and December, right? We suspect that the IPPs will want to see more than just this one data point before they're committing to building new dispatchable gen like natural gas. So, we'll be keeping an eye on that.

So, there's a few things that we'll be looking at. This, of course, is one data point, but I think it clearly supports our strategy, which is we sure we keep resource adequacy front and center.

We think the states are going to have to play an active role in that. Unfortunately, I think Pennsylvania is taking this seriously, and we look forward to continuing to work with all the stakeholders in the state to see what we can do to show this up.

Shar Pourreza

Okay, perfect. I appreciate the additional color here. Congrats on the results and seriously, we'll see you soon.

Vince Sorgi

Thanks Shar.

Operator

The next question comes from Durgesh Chopra with Evercore ISI. Please go ahead.

Vince Sorgi

Morning Durgesh.

Durgesh Chopra

Hey, good morning Vince. Thank you for taking my questions. Hey, I just want to continue the discussion on the PJM auction results. You mentioned that IPPs probably want another signal before they can commit capital here. This is a pretty dramatic signal in terms of price increases.

One of the things we're consistently getting asked from investors is what does it do to utility builds? Your peers kind of talked about double-digit increases in some of their services. I know this is not 9 times translates into that large a bill increase, but just maybe can you discuss that a bit what does this mean for customer bills?

Subscribe to Seeking Alpha for more content like this

Vince Sorgi

Yes, of course. So, I would say for the near-term impact for customer bills, and this of course, assumes all else equal, right, which never is the case. But all else equal, we would estimate that these higher prices would impact the generation portion of the bill for an average customer by about $10 to $15 per month. That represents roughly 5% to 10% of the total bill. We would expect that to begin in 2025 as our suppliers start to reflect these higher prices in their solicitation bids.

I did talk in our prepared remarks, fortunately, in addition to the other actions that I just talked about with Shar, that we're taking on this issue. We are seeing that substantial data center load. And if we just stick with that 5 gigs in advanced stages, right, that would reduce our customer bills over time by a similar amount that we're talking as a result of the capacity price increases once that demand all comes online.

So, lots of moving parts on here. Obviously, the capacity prices will have a near-term increase impact and then we'll look to mitigate that over time with various actions, including the data center look coming online.

Durgesh Chopra

That's very helpful. I appreciate the detail there. Then just switching gears on the balance sheet. Just thinking about the $400 million to $450 million you mentioned and other opportunities across the different states.

How should we think about your balance sheet capacity? What CapEx could be done with debt? And at what point you might consider equity as we think about you rolling forward your plan here into 2029 now?

Joe Bergstein

Sure. Hi Durgesh, it's Joe. So, look, I'd just say that our balance sheet is in really good shape, and we expect to be within the FFO to debt range of 16% to 18% through the planning horizon.

Capital is just one factor that goes into our financing needs, and we'll work that through as we update our business plan. But obviously, there's other things that drive those financing needs to determine what will ultimately do, interest rates, inflation, our efficiency strategy certainly plays a role in that and then rate case outcome.

So, as we go through the plan, and incorporate all of these factors, including potential additions for data centers and other opportunities, we'll take that into -- but again, our balance sheet is in really good shape.

Durgesh Chopra

Thank you. Thank you, both. Appreciate the time.

Vince Sorgi

Thanks Durgesh.

Operator

The next question comes from David Arcaro with Morgan Stanley. Please go ahead.

Vince Sorgi

Morning Dave.

David Arcaro

Hey good morning. Hey, thanks for taking my questions. Looking ahead to the Kentucky IRP in October. Just curious, does it look likely at this point that you'll need new generation as you're crafting that before you file it?

Vince Sorgi

Well, I certainly don't want to get in front of that process that right, it's a very extensive process that we go through when we update the IRP. We are required to update that in October with the commission.

Subscribe to Seeking Alpha for more content like this

The reason I say that, Dave, is, obviously, we have to do a full load forecast update, right? So, we'll look at what's going on with the industrial growth, what's going on with data centers, just general customer -- new customer additions and what we're seeing from a relatively useful customer perspective. We also have to take into account energy efficiency programs, distributed energy resources, penetration, of course, electric vehicles are starting to come in.

So, we will do a comprehensive load forecast with multiple scenarios around that forecast and that ultimately feed into how we believe we will need to deal with that from a migration supply perspective, which could include a combination of dispatchable resources to ensure we have capacity there, which would be something like another combined cycle natural gas plant, but it could also entail additional solar or renewable resources, batteries similar to what we got approved last year.

So, I don't want to get in front of what that result will be, but suffice it to say, we'll go through that full analysis that we'll have a pretty good sense when we file that what our generation needs. And then if it shows the need for incremental generation, we would follow that up shortly thereafter with the CPCN to request approval for that.

David Arcaro

Yes, understood. That makes sense. I was also curious, do you have a view on how long -- just thinking about the PJM market, how tight that market has gotten here. How long does this does it take to build a new gas plant in PJM realistically? Like when could we actually see a supply response kind of from anybody as we look at supporting the supply/demand tightness?

Vince Sorgi

Yes, you're not going to love this answer, but it depends, right? Are we talking peakers? Are we talking combined cycle? Do you own turbines -- do you have to get in the queue? Theoretically, if you own turbines and we're talking peakers, and you've done some site work probably 18 months, 18 to 24 months on the short end. If you're starting from scratch and you want to go combined cycle, it's probably four to five years.

David Arcaro

Yes, got it. That makes sense. Tough problem to solve, but depending on which can you go. Maybe one last question from me. You've highlighted the TMO in the slides. And so looking at the O&M opportunities, I was wondering, have you taken a look at kind of beyond the 2026 targets? What are the -- what's the opportunity set here? Can you continue beyond your existing targets on O&M cost reductions?

Joe Bergstein

Yes, Dave, it's Joe. Certainly, beyond 2026, we continue to see opportunities. Vince mentioned, AI and some of the use cases that we're seeing that we think can drive longer-term O&M efficiency opportunities.

Clearly, we're focused on achieving the $175 million that we've laid out, which we're in good -- making good progress on and we'll achieve that we'll continue to look for opportunities beyond that time frame. But certainly, there will be opportunities to get more efficient.

David Arcaro

Great. Thanks so much. Appreciate the color.

Vince Sorgi

Thanks Dave.

Operator

The next question comes from Julien Dumoulin-Smith with Jefferies. Please go ahead.

Julien Dumoulin-Smith

Hi, good morning tea. Thank you guys for the time. Nice job you guys. So, a lot has been said here, but let me pivot a little bit in a different direction here on this conversation on data centers. And that's the heuristic I think you provided about like 1 gigawatt reducing the bill by like $3 a month. How do you think about that scaling here, right? Because you talked about more than 1 gigawatt of data center.

Subscribe to Seeking Alpha for more content like this

Obviously, I think that there's an element of time here of when you realize those cost savings. But can you speak to that again, you throw out like a 5-gigawatt potential, for instance, here of late. Like not going to reduce emission costs that sizable linearly.

Vince Sorgi

What we're seeing with the current 5 gigs is that, that starts in 2026, we would expect to be at our first gig in 2027 and then probably added 1 gig each year thereafter.

Julien Dumoulin-Smith

Got it. And what does that mean for -- as you think about like build cost reductions through that, right, using that heuristic of that $3 a month. Do you think about -- did it see compounding benefits every year?

Vince Sorgi

Yes, it's about $3 a month per gigawatt. So, by the time we get the full 5 gigawatts, it would be about $15 a month in lower bills for the per residential customers.

Julien Dumoulin-Smith

Wow. Okay, that's pretty impressive. And then separately here, just in terms of -- you talked about this predictive failure technology, not being DSIC eligible. Can you talk about what that does for rate case timing, if at all? Or can you talk about Pennsylvania at large on the rate case side, I suppose there are other factors there as well?

Vince Sorgi

Yes, sure. I mean in general, I mean, $84 million isn't going to necessarily impact our rate case timing, Julian. But -- so we'll look to continue to deploy that technology and seek recovery in our next base rate case. Joe, you can talk about timing on that?

Joe Bergstein

Yes, I think at this point, the earliest we would see a rate case in Pennsylvania would be 2026 and that would be at the earliest, we may be able to go beyond that timeframe.

Again, it's point, he's right $84 million isn't going to drive that decision, but we'll deploy it, and we'll seek recovery of that in the next rate case whenever it may be.

Julien Dumoulin-Smith

Got it. All right. Excellent. And then related here, your thoughts on -- just going back to that, I think you said October filing on the next IRP here. Just to the extent to which that you are able to move swiftly on that second combined cycle here, presumably as a piece of that. I mean how front-end loaded versus longer-dated could some of these opportunities prove themselves?

Vince Sorgi

Yes. So, near-term transmission upgrades, those will go in line with the requests. Just to give you -- again, we're in a $10 million to $75 million per project range in Kentucky, just given the size of the projects down there just to give you a sense for the 350 megawatts that are in more advanced stages in Kentucky, that's just under $30 million of incremental capital there on the transmission side. So, those will be done in concert with the data center demand coming on.

Subscribe to Seeking Alpha for more content like this

In terms of the generation, any large-scale generation like would not come online until around 2030. That's the indication we've gotten from the commission, when we talk to EPC contractors, when we look at when we can get the turbines, that's probably where we're talking in kind of the 2030 timeframe. So, obviously, the few years prior to that is when we'll be spending the capital.

Julien Dumoulin-Smith

Yes, probably, 2028 to 2030 there. All right. Cool. Excellent. Thank you guys. Appreciate it very much.

Operator

Next question comes from Ryan Levine with Citi. Please go ahead.

Vince Sorgi

Hello Ryan.

Ryan Levine

Good morning. Hey everybody. For the 5 gigawatt opportunity, what's the timetable for go, no-go decisions for these potential customers? Is there any cadence or color you could provide around how that could play out?

Vince Sorgi

Yes. So look, we're making good progress with the developers on all of those. We're working through the PJM planning process as well as the PUC processes, all of that is progressing well. I would say probably no change, Ryan, from what we talked about on the Q1 call.

We still expect that any formal announcements would come kind of at the end of the year, beginning of next year. The data center companies are going to want to make sure we get through those full processes before they're announcing. So we would expect that to be really around the end of the year, beginning of next year.

Ryan Levine

The end-of-year decision for the initial 3 gigawatts or to the entire 5?

Vince Sorgi

That's all 5.

Ryan Levine

Okay. And then in terms of the Pennsylvania CapEx associated with that, I appreciate the color provided. But in terms of scaling beyond the 5, is there any key milestones or amounts that you'd have to achieve to be able to have maybe a bigger step up on a per megawatt basis from an investment standpoint?

Vince Sorgi

I mean, again, that's really very project specific. So, we'll update this quarterly so you have a sense of how we're progressing on overall data center demand in our jurisdictions, how much is in the queue, how much is in advanced stages.

We'll try to provide updated CapEx estimates as we go along. But it'd be hard to again, we're talking $50 million to $150 million. So, that's a $100 million range depending on the project. So, we'll keep that disclosure updated as we go.

Ryan Levine

Okay. And then one last one for me. In terms of the headquarters in Pennsylvania, is there any practical implications from headcount or cost outlook given the real estate sale?

Vince Sorgi

No, I mean this was really -- the decision to sell the building was a kind of post-COVID had way too much real estate from what we needed. It was underutilized. And so nothing to do with headcount.

Subscribe to Seeking Alpha for more content like this

Ryan Levine

Okay. Thanks for the color.

Operator

The next question comes from Anthony Crowdell with Mizuho. Please go ahead.

Anthony Crowdell

Hey good morning team. Hope summer treating you well.

Vince Sorgi

Likewise.

Anthony Crowdell

Range's schedule is out, but we'll keep it just to the call here. I'm just wondering, Vince, you talked about some of the transmission opportunities and the infrastructure investment associated with this higher capacity price.

If you -- and then we're going to look at December to see what the print is there. I mean, do you think higher capacity prices are good for PPL given the potential added investment?

Vince Sorgi

Well, look, I think there's a number of things we're focused on, Anthony, right? There's resource adequacy overall in the market, in particular, in PJM. And so if those higher prices incentivize new generation and sure resource adequacy, that's a good thing, for all of us in PJM.

We talked about the higher cost that will ultimately bear for our customers, which obviously is not great for our customers, but we're looking at all alternatives to see how we can bring that generation to bear in the most lease cost way, as you know. So, there are some puts and there are some takes, I would say, with that print.

Anthony Crowdell

Got it. And then just following up, and I apologize if you just keep popping on the PJM, and I'm just not that familiar with it. For your customers in Pennsylvania that maybe don't shop that maybe the utility procures the energy. Is there a hedging strategy you guys pursue to mitigate any energy price volatility for customers?

Vince Sorgi

Yes, that's why the range is $10 to $15. So, we have in the early part of 2025 where we've already procured that power. It wouldn't have as big of an impact as the back half when we're procuring additional power and those prices might be reflected in what we're buying.

So, the next solicitation is October, 4th quarter of this year. So, we're suspecting that those prices will make its way into that solicitation.

Anthony Crowdell

Great. Thanks for taking my questions. Looking forward to seeing you guys next week.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Vince Sorgi for any closing remarks.

Vince Sorgi

Great. Thank you. I just want to thank everybody for joining us on today's call. We will be in New York next week and hopefully, we'll get to see as many of you as we can then. So, thanks again for joining.

Subscribe to Seeking Alpha for more content like this

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

**Load-Date:** August 2, 2024

**End of Document**