Q2 2024 Earnings Call

Company Participants

- Daniel L. Eggers, Executive Vice President and Chief Financial Officer
- Emily Duncan, Senior Vice President, Investor Relations and Strategic Initiatives
- Joseph Dominguez, President and Chief Executive Officer
- Kathleen L. Barron, Executive Vice President and Chief Strategy Officer

Other Participants

- David Arcaro, Analyst, Morgan Stanley
- Paul Zimbardo, Analyst, Jefferies
- Shar Pourreza, Analyst, Guggenheim Partners
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Constellation Energy Corporation Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. As a reminder, this call may be recorded.

I would now like to introduce your host for today's call, Emily Duncan, Senior Vice President, Investor Relations and Strategic Growth. You may begin.

Emily Duncan {BIO 19245511 <GO>}

Thank you, Michelle. Good morning, everyone, and thank you for joining Constellation Energy Corporation's second quarter earnings conference call. Leading the call today are Joe Dominguez, Constellation's President and Chief Executive Officer; and Dan Eggers, Constellation's Chief Financial Officer. They are joined by other members of Constellation's senior management team, who will be available to answer your questions following our prepared remarks.

We issued our earnings release this morning along with the presentation, all of which can be found in the Investor Relations section of Constellation's website. The earnings release and other matters, which we will discuss during today's call contain forward-looking statements and estimates regarding Constellation and its subsidiaries that are subject to various risks and uncertainties. Actual results could differ from our forward-looking statements based on factors and assumptions discussed in today's material and comments made during this call. Please refer to today's 8-K and Constellation's other SEC filings for discussions of risk factors and other

circumstances and considerations that may cause results to differ from management's projections, forecasts and expectations.

Today's presentation also includes references to adjusted operating earnings and other non-GAAP measures. Please refer to the information contained in the appendix of our presentation and our earnings release for reconciliations between the non-GAAP measures and the nearest equivalent GAAP measures.

I'll now turn the call over to our CEO, Joe Dominguez.

Joseph Dominguez {BIO 16668698 <GO>}

Thanks, Emily. Good morning, everyone. Thanks for joining us this morning and thanks for your interest in Constellation. During this incredibly hot summer we've had, our best-in-class nuclear fleet has once again met the challenge and is delivering clean reliable 24/7 power. Combined with our renewable natural gas fleet, we're providing the power to keep families cool and businesses running, supporting our country's economic growth. Our commercial business continues to do an awesome job, providing needed products to our customers and managing our one-of-a-kind portfolio. I want to thank the women and men at Constellation for their tireless efforts and for helping our customers meet their energy and sustainability goals.

Now, at Constellation, we put our people first because they're the ones that are responsible for our success and because we think a good culture creates good results. In fact, I think it's the single most important driver of any company's success. Look, we're far from perfect, but we work hard to make this place someplace where people want to come and spend a career doing important things for America and thriving. That is why we're so proud to report to you that Constellation was certified as a Great Place to Work once again. We've been out as a separate company for about two full years, a little bit over that. And for two years, we've received this honor. And it's particularly impactful to us because you only get this certification through surveys and high marks by your people, independent surveys. So, it's great to see that our folks are seeing the work we're doing. They believe in our mission. They're passionate and they're 100% committed.

And it shows up again here in results for you, our owners. In this quarter, we're able to provide excellent results, but also raise guidance in just the second quarter. We delivered second quarter GAAP earnings of $2.58 per share and adjusted operating earnings of $1.68 per share. We are raising our adjusted operating earnings guidance from the initial range of $7.23 to $8.03 per share to a revised range of $7.60 to $8.40 per share. In effect, we're resetting the midpoint of our guidance to what used to be the top end of our guidance range. The fact that we do that here in Q2 as opposed to waiting till Q3 when these updates typically are provided should tell you how strongly we feel the business is performing. It's even more remarkable when one considers the compensation headwinds associated with stock comp, where the stock has obviously performed very well over the first half. Dan will cover all of the financial details in his slides.

In terms of buybacks, we bought $500 million worth of our share during the quarter, bringing the total cash deployed on buybacks so far this year to over $1 billion -- excuse me, $2 billion. Although we've seen some slippage of late, we remain bullish on buybacks because our thesis

is incredibly unique and compelling. We will grow base earnings by at least 10% through the decade, backstopped by the federal PTC and that growth does not reflect the opportunities we have in front of us from adding new clean reliable megawatts to the grid to meet reliability needs or from selling to data center customers. And as we have been, throughout the year, we remain quite confident in our ability to do better each year than our first base earnings, delivering even more value to our owners.

And finally, we released our third sustainability report, highlighting our efforts to help customers achieve their goals. I encourage you to read it. It outlines the good work we're doing on so many fronts as we lead the nation in the production of clean and reliable energy and provide unique and powerful sustainability products.

Now, before I turn to the operational updates, I do want to spend a few minutes on two topics that are garnering a lot of attention, the PJM capacity market auction results and the data center opportunities and the FERC proceeding concerning those opportunities. First, let me talk about the PJM capacity auction. We think -- and PJM said this in its press release, we think the same thing. It's telling us what we already know. The demand for electricity is growing and supply and demand fundamentals are tightening. We foreshadowed all of this in our lengthy 2023 Q4 call when we walked through the market fundamentals in considerable detail. Fortunately, the reforms FERC recently approved for the PJM capacity market are designed to incentivize the supply that we need, namely incentivizing supply that can be counted on to operate when our customers need power. PJM proposed and FERC approved a design that provides greater compensation to power plants like ours that historically deliver when the system needs power.

We previously have shown you data on how nuclear energy performs extraordinarily well through greater emergencies, while other resources frankly do not, whether they are intermittent or dispatchable fossil assets. That means that nuclear is best positioned in this new market design and appropriately receives a fair level of compensation. In light of the forecasted load growth in PJM, we expect to see higher sustained pricing for capacity to address reliability needs and send more accurate price signals to retain, operate and relicense our plants as well as incentivizing the development of new resources and customer demand response. Over the years, the PJM market has a proven track record of attracting investment through price signals and has developed over 60 gigawatts of generation to meet all of the needs of the grid. And we're confident that the market will respond to higher prices and add more resources that need -- as needed. With that said, we know that higher prices impact families and businesses. And so, our commercial team is working with these customers to provide solutions that manage the risk and smooth out bumps.

But I think it's important to remember that adjusted for inflation, PJM energy and capacity prices are less today than they were 15 years ago. Markets work, folks. What has changed for the customer is that the distribution and transmission elements of the bill have gone up. They've gone up to address reliability needs on those grid systems. But thankfully, that has been largely accomplished. And now, we need to focus on investments on the reliability of the supply side, and that's what the capacity market is designed to do. Over the last two investor calls, we've emphasized that reliability is as critical as sustainability. They have to go hand-in-hand. Constellation's business is based on the thesis that the most valuable energy commodity in the world today is a reliable and zero-emission megawatt of electricity.

To us, the PJM results are just another data point that Constellation's thesis is right and that we're focused on doing the right things. First, by providing sustainability products to customers that expressly link reliability sustain -- to sustainability by time matching clean energy production to when our customers use energy. And second, by investments in relicensing and operating the clean energy centers that will reliably and sustainably power American families and businesses for decades to come. On this second point, in its recent comments concerning the auction, PJM alluded the potential efforts to speed up the interconnection of needed resources. We look forward to seeing PJM's ideas and we certainly will support those efforts in any way that we can. The case for prompt and decisive action by PJM is manifestly clear.

In sum, we need to invest to grow America's economy and we need to invest and enable the technologies that support our economies and protect our nation. We think Constellation will play a big part in these efforts. That's our mission and it is what inspires our people to make Constellation a great place to work.

Now, turning to slide six, we're continuing to do well in our discussions and negotiations with data center companies. The simple fact is that data centers are coming and they're essential to America's national security and economic competitiveness. We've heard this from a variety of policymakers. A number of nations, including China, are vying for AI supremacy. And it's absolutely critical that the US not fall behind. Time is of the essence. We simply cannot wait years for the data centers that are going to bring transformations. They're going to bring transformations in medicines, bringing new cures to diseases and treatments that research alone cannot do. They'll better predict whether they'll provide material enhancements and they'll do things for us on the energy supply system to more smartly manage the grid. Economically, data center investment means considerable construction as well as permanent jobs, tax revenue, community development and other benefits to our states. We appreciate what the utilities in our States are doing to attract this crucial economic engine. We're doing our part, too.

All of our political leaders understand this, and that's why states are competing with each other, Republicans and Democrats alike, to bring the development of data centers to their jurisdictions. All of the policymakers we talk to want data center development wherever it occurs on the grid or colocated. But as you're all closely following, there is an active conversation underway by policymakers and stakeholders trying to understand the implications of the different ways of powering data centers. We welcome that conversation and we're confident that any thorough examination of colocation with nuclear plants will show that it is both the fastest and most cost-effective way to develop critical digital infrastructure without burdening other customers with expensive upgrades.

As we see it, utility connection will continue to make sense for some applications and in some parts of the grid. But where it's an option, we will continue to see customer interest in colocation, strong interest, because there are just too many advantages of connecting large load directly to large forms of generation, especially clean generation. And I don't think that point is really debated. On slide six, you can see some of the many quotes from key stakeholders, including the utilities that oppose Talen's ISA talking about the significant benefits of colocation.

I'll outline four of them. First, in a behind the meter configuration, the data center customer, not other customers, pay for the infrastructure needed to connect to the power plant. Unlike in front of the meter projects, we're sometimes cost -- almost 90% or more of the costs are shared with other customers. In these behind the meter configurations, the data center companies pay for the infrastructure. Second, colocating a data center with a power plant is just more efficient and it is faster, which, again, I think the complaining utilities have acknowledged telling the FERC, quote, significant new load can be served without having to expend resources on expensive system upgrades, close quote, that's from their filing. At a time when RTOs are struggling to integrate new resources faster and time is of the essence, this benefit is a big deal.

Third, these behind the meter configurations are long-dated, so they'll allow us to have the economic certainty to relicense nuclear plants and to operate them, with all the attendant benefits that creates for the grid in our nation. Fourth, in terms of new clean generation, the common thesis for these forms of generation whether they're SMRs or carbon sequestration technologies is to colocate them with industrial and data center load. We've seen that countless number of times. For all these reasons, colocation will be an essential tool for maintaining our national security, developing new generation and our overall economic competitiveness.

Friday's actions at the FERC may have slowed things, but ultimately will be constructive in our view. Notably, FERC did not grant requests by a small number of utilities to set the Talen Energy ISA for hearing or in the alternative to reject it outright. Instead, the FERC ordered a technical conference that will provide all parties with the opportunities to talk about the benefits of colocation as well as other issues. Likewise, we thought the language of the deficiency letter was narrow. In fact, it mirrored standard deficiency letter language about a higher burden of proof for ISA modifications that we've seen in a number of other applications.

Just as an example of this, in the last 12 months, Exelon's subsidiary, ComEd, received two deficiency letters using the exact same language about a higher burden of proof that we saw in the Talen letter. In both instances, the project was approved. Of course, look, we don't know what FERC ultimately will do with the Talen ISA, but we think the benefits are compelling and we look forward to the conference and we're confident that any fair examination of costs will support colocation. So, at this point, we and our customers are continuing to make progress and we hope to execute contracts. At the same time, on a parallel path, we'll participate in the FERC proceedings or in any proceeding where these matters are discussed. But that doesn't mean we won't have conversations with utilities outside these proceedings. In my view, transparency is part of who we are as a company. And the more we could share with policymakers, utilities and all stakeholders about how these facilities will operate, how they'll interact with the grid and their benefits, the better for everyone.

I just want you to remember that in a grand scheme of things, colocation is not a new idea, it's actually quite an old idea. As PSEG and others have noted, co-gen, or combined heat and power projects were the first colocators since I think they were the first microgrids. And when I came into this business, those projects were a common feature of our system and, not surprisingly, utilities were not always friendly to co-gen, at least not at first. But policymakers insisted on non-monopoly alternatives to power, and things got better. Now we're dealing with a whole new generation of policymakers and regulators, including many that weren't around when the co-gen policies were created. So, we need to do a bit of work here to educate and form. But importantly, we simply don't see this as a zero-sum game. There's a great opportunity

for Constellation and for the utilities to work together to bring grid connected and colocated data economy growth projects to our states.

Here's what I think. In the fullness of time, those jurisdictions that have clean energy centers like ours and offer both colocation and grid connection will be the most successful in generating business development and economic growth and jobs for their states. Now, look, I want to close this part out by talking about something that I think kind of got missed in the overwhelming amount of conversation about the FERC process. I understand why there is a lot of attention on that, but we don't want to leave this topic without saying that we are making great progress on power sales for on-grid data centers through our 27 -- 24/7 product. Utilities across PJM, I think you've seen this in a bunch of the earnings calls, have been highlighting the growth of data centers in their service territory.

In total, as you can see on slide six that now identified 50 gigawatts or more that would come in over time. Now, look, in fairness, I think there's a bunch of duplication in those numbers and it's going to occur over a longish timeline. But the point is, I think it's powerful that everyone is seeing the same thing, growth in this area. And those growth opportunities are good for Constellation because each of these grid data center projects, whether they're located in Illinois, Ohio, anywhere else in PJM or in other regions, they present an opportunity for our commercial team to sell clean and reliable power through our 24/7 product and other offerings to these clients. So, in conclusion, we continue to have multiple ways to serve our data center customers, both behind the meter as well as grid connected and create value for all of our owners. Nothing over the last quarter has changed our outlook how Constellation can meaningfully participate.

Turning to slide seven, our fleet performance is laid out in this slide. And as you can see here, nuclear performance was again strong and ahead of plan for the quarter. We produced more than 41 million megawatt hours of reliable, available and carbon-free generation from our nuclear plants with a capacity factor of 95.4%. That's including refueling outages, which we completed in an average of 21 days and industry-leading as always. Our renewables and natural gas fleet also performed well and exceeded our plan with 96.6% of renewable energy capture and a 98% power dispatch match, congratulations to those teams, excellent work.

Turning to slide eight, we talk a lot about the advantage of creating value because our best-in-class carbon-free generation fleet is combined with an industry-leading commercial business. And the results here again demonstrate the validity of that point. Our commercial business thrives in volatile and changing markets, the markets we're seeing, with spot and forward prices going up and down a bit throughout the course of the year. This quarter, our team priced in higher margins to customers to manage their exposure to volatile prices through firm products that offer price certainty. They optimize, not only our individual generation and load positions, but they created the best positions using both. So -- and they sold customized sustainability solutions. On that point, we're seeing more evidence of our customers, not just data center customers, but customers as a whole, evolving in their sustainability journeys from buying annual clean energy products to starting to match their hourly consumption with clean energy. And, again, I think the reliability dimension here plays hugely in the understanding of customers that we need to match clean energy production with the time of use for their particular application. And they also understand that that's the best way to ultimately make a difference in the environment and to manage the energy volatility.

A good example of that came to us this quarter when John Hopkins University Applied Physics Lab joined the growing list of high-profile customers that have turned to Constellation to power their operations with 24/7 carbon-free energy. As we did with the Comcast contract, the McCormick contract that we highlighted on our last call, we spotlight this agreement with Johns Hopkins because it shows that it's just the hyperscalers, but rather a wide range of customers that are looking at 24/7 carbon-free energy matching as the best solution.

With that, I'll turn it over to Dan to cover the financial update.

Daniel L. Eggers {BIO 3764121 <GO>}

Thank you, Joe, and good morning, everyone. Beginning on slide nine, we earned $2.58 per share in GAAP earnings and $1.68 in adjusted operating earnings, which is $0.04 per share higher than last year. Our commercial business continues to perform exceptionally well, creating value by optimizing our generation and load positions, demonstrating how it thrives in volatile markets. We're also seeing margins above the long-term averages we use in our forecast and above the enhanced margins we disclosed in February. This performance flowed through our quarterly results and contributed to our improved outlook for the year, which I'll discuss in a few minutes. Compared to last year, we benefited from the nuclear PTC, more nuclear output combined with lower costs and refueling outages, and contribution from our ownership share in the South Texas Project that closed last fall. And as discussed last quarter, our stock has performed very well year-to-date, which creates higher employee stock compensation expense year-over-year.

Finally, on the quarter, we recognized $33 million from the Illinois ZEC program in June for banked credits, which is down a bit from the $218 million recognized last year. As you may recall, the Illinois ZEC program is subject to an overall cost gap as one of its consumer protection features. In earlier years of the program, we generated more credits than we could use under this mechanism who were able to bank those credits for future years. For the 2023-2024 planning year, so last second quarter, power prices had risen to a level where the ZEC price was nearly zero and we were instead able to use our bank ZECs to get back to the cost gap. For accounting reasons, we had to book these revenues at the start of the planning year and, hence, the $218 million we recognized in the second quarter of 2023. This year, the forward prices have moderated and the ZEC credits for the 2024-'25 planning year will largely get us to the cap, using only $33 million of bank ZECs, which we then recognized this quarter last year. So, taking all these impacts together, when you think about our second quarter results, our year-over-year quarterly earnings were $0.04 higher, but would have been $0.44 per share higher if not for the timing of when we recognized the Illinois ZEC credits. Instead, we'll see these credits flow as a positive driver for the remainder of the '24-'25 planning year and have always been part of our full year expectations.

Moving to slide 10, we are raising our full year adjusted operating earnings guidance outlook with the midpoint of guidance going from $7.63 to $8.00 per share with a new range of $7.60 to $8.40. Joe and I spoke about our strong commercial performance to-date, and that performance enables us to increase our earnings outlook for the year. As you can see in the appendix on slide 25, we increased our enhanced gross margin line by $450 million due to better optimization of our portfolio and higher commercial margins than planned. Our expectations for enhanced commercial margins improved by $0.15 to $1.90 per megawatt hour, which is on top of our base commercial margin of $3.50 to $3.60 a megawatt hour.

In addition to an increase in stock compensation due to our share price, we have some O&M drag due to performance-based compensation as a result of the commercial team's exceptional execution and value creation for our owners. Our ability to optimize our generation and load positions is not limited to 2024, but has extended into our 2025 outlook as well. We increased our 2025 enhanced gross margin expectation by $250 million, some of which is from strong commercial backlog creation, while the rest is due to the higher prices from the PJM capacity auction.

So turning to slide 11, let's get into the financial impact of last week's capacity auction results. To level-set everyone from the start, the nuclear PTC is now in place. So, calculating the benefit from higher capacity prices is a little more involved than just a P times Q exercise. The nuclear PTC is a means-based credit and is calculated by filling the gap between gross receipts, so all the market-based revenues coming to a plant and the PTC threshold value that we assume is $44.75 in 2025. What this means is if gross receipts per unit were below the PTC threshold of $44.75, we'd expect to receive PTC revenues to get us to that level. For those units, the uplift from higher than anticipated capacity revenues following this auction must first replace the expected PTC that was bringing us to the PTC floor level before we able to realize upside to earnings. For units over already above the PTC floor, the full upside of the capacity price increase will be realized. Additionally, any revenues above the CMC price will be refunded to customers, so we do not realize any upside benefit for the three CMC plants in Illinois, even though they cleared the auction.

With all that clarification, capacity prices were higher than our expectations, and compared to where power prices were for both 2025 and 2026, we are now seeing many of our PJM plants at or above the PTC floor and providing earnings upside for us. Forwards for 2025 are lower than 2026, so more of the capacity revenue upside in 2025 goes first to offset the expected PTC contribution. The net earnings impact to 2025 is approximately $0.25 per share, which we reflected as part of the enhanced gross margin increase on slide 25 of the appendix. For 2026, assuming that we carry through these same capacity prices in the 2026-2027 capacity auction in December and use the end of quarter forward power prices, we'd expect $1.25 per share increase in earnings against the previous assumption using $100 a megawatt day for the capacity auction. As a reminder, every penny of EPS is about $4 million pretax if trying to calibrate your forecast.

Turning to the financing and liquidity update on slide 12. Our investment-grade balance sheet remains strong and we continue to have constructive conversations with the ratings agencies. During the second quarter, we entered into an accelerated share repurchase program, completing $500 million of repurchases on top of the $500 million of repurchases we discussed on the first quarter call. We've now completed $1 billion year-to-date and $2 billion since the program began last year for a total of more than 16 million shares. We have roughly $1 billion remaining in our Board authorized repurchase program and we have more than $2.3 billion of capital still to be allocated for 2024 and 2025 before taking into account the improving earnings outlook for both of these years.

We have considerable strategic flexibility to create further benefits for our shareholders through organic growth that meets our return thresholds or through investing directly in our company. We believe firm clean megawatts are the most valuable commodity in the market today and we have more nuclear generation in competitive markets than all of our peers combined. When we

look at our ability to execute and create value as well as the opportunities ahead of us, we continue to view our stock as compelling and, unfortunately, even more so since the last time we met. We will continue to invest directly in it through buying back our stock.

I'll now turn the call back to Joe for his closing remarks.

Joseph Dominguez {BIO 16668698 <GO>}

Thanks, Dan. Great job. Constellation is like no other company. We have a unique set of existing assets that really can't be replicated that create opportunities for us that no one else has. At our core, we have a visible base earnings growth of 10% through the decade that is backstopped by the federal government through the nuclear PTC and has a built-in inflation adjuster. That backstop is a huge differentiator, especially as some investors start to become concerned about clouds in the economy. Our country needs what we have, clean and dependable power generation to drive economic growth. And the argument for that just got stronger as the year has progressed. We could support both national security and meet environmental goals. Power demand is growing and, at the same time, reliability is becoming a premium product, and we have the most reliable generation in America. Increased demand combined with the change of the electric system to more intermittent non-dispatchable resources means that volatile power markets will continue. We have a commercial team that is very capable of addressing and earning margins from that volatility.

We think Constellation is going to be a huge part of the solution for decades to come. Our clean and reliable nuclear plants coupled with our ability to offer customers sustainability products will drive the US energy transition and the growth in the data center economy. Politically, both Republicans and Democrats have consistently recognized that nuclear is both the backbone of our system from a reliability standpoint and is key to our sustainability goal -- goals. And that growth just -- that support just continues to grow, pardon me. On top of the opportunities we have from volatile power markets, we have more than 180 million megawatt hours of carbon-free duration that we produce annually that can achieve additional compensation through in front of the meter deals, behind the meter deals, upgrades and other opportunities to invest in reliable clean energy and government procurements.

Not many companies are growing at at least 10% through the decade as their starting point with a federal backstop, but we're not satisfied with that. We think we will grow base earnings faster with both behind and in front of the meter customer deals and increasing our nuclear megawatts. On top of this, our commercial team is working to consistently create products and services that will capture additional value from the markets above our base lines. That's our focus. That's what we do every day.

So, with that, let me turn it over back to you, Michelle, to handle questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Shar Pourreza with Guggenheim Partners. Your line is open.

Q - Shar Pourreza

Hey, Joe and Dan, good morning.

A - Joseph Dominguez {BIO 16668698 <GO>}

Good morning.

Q - Shar Pourreza

Joe, just starting with the colocation backdrop, does the FERC technical conference -- I think you kind of alluded to this, does it kind of prolong the timeline for a deal announcement at this point? And can you give us just any color on timing of a potential deal or how your potential counterparties are viewing the ISA process right now?

A - Joseph Dominguez {BIO 16668698 <GO>}

Yeah, sure. I think it could slow things down in terms of folks looking for certainty. But as we kind of think about it, right, you think about the ancillary services that people are debating here, you think of the totality of those ancillary services is relatively small. We actually think it's zero just as PPL and Talen do in terms of the physical application we have. But even an allocation of these ancillary services is relatively a small amount. And if they're metered as PJM proposes, we're talking about really low dollars per megawatt hour, $1 to $2 to $3 a megawatt hour at most. Those kinds of charges aren't going to change the economic viability of these projects, even if they're imposed. And, again, we think the better argument is no charge will be imposed in terms of the configuration we're talking about.

So, from our customers' perspective, it's about crafting provisions in the contract that allocate those contingencies to the extent they occur and then -- and we've had to kind of deal with that in the negotiations of the deal. But these things continue to march forward. I think in the long run, having clarity is going to be the most important thing and getting through this -- and Talen getting through its ISA and having clarity is only going to kind of speed up the process and speed up deal execution because people will then know exactly what they're contracting for. So, that's kind of the way we see it. We'll continue to work for it. I don't think we need to wait until the end of a FERC process to announce a deal. Like I said, contracting provisions will handle all contingencies that might occur with regard to that FERC proceeding. And we really don't see an outcome here where the FERC is going to say, you can't do this. I mean, we've outlined the four reasons in the script. I won't go through them again, but this is kind of a -- this is important on so many levels to get done, the policymakers in the states want it to get done. And I think that message will come through loud and clear in the process. I actually think it's a good opportunity to educate and inform people and kind of get this all out there. This is again not a really new idea, but it's new to many. And so, we've got to walk-through the process.

Kathleen, I don't know if you have anything to add in terms of the timing of the conference, what you expect to say?

A - Kathleen L. Barron {BIO 19492153 <GO>}

No. I mean, I think you covered it, Joe. This kind of meeting is the kind of meeting that FERC holds from time-to-time when they want to learn something about a topic. Last year, they had a technical conference on the EPA proposed 111(d) rule. And I've participated in these on both sides, both as the commission and as a stakeholder. And it really is a great opportunity for there to be interaction between stakeholders and the commissioners in an informal setting like a conference as opposed to doing so in litigation. So, that we can answer questions, we can talk about the benefits as we see them and get the issues out there in the open in a setting where it's less adversarial than a litigated docket. And in terms of the Talen case, when we look at the narrowness of the deficiency letter, as Joe pointed out, it's very similar in language to other deficiency letters that have been issued on ISAs that have non-conforming language, asking very narrow -- one really narrow question about why those provisions are necessary. You contrast that to what typically happens where there are long list of questions in deficiency letters reflecting concerns from the commission or questions from the commission. That does not occur here. So, they're really -- if you zoom out signaling that they intend to keep the Talen proceeding focused on the Talen facts, and they're going to use the standard tool that they have this tech conference to learn some more about the topic. So, we see this as a very constructive way to move forward and, frankly, a responsible one on the FERC's behalf.

Q - Shar Pourreza

Got it. Okay. That's helpful. And then just lastly, BRA, I mean, I guess, it's open to interpretation on whether we actually do instant new entry into the market. I guess, obviously, Joe, you're in discussions. What's your view on some of the commentary out of some of the T&D utilities? And it's been topical on these calls as regarding just PPA-ing or rate-basing peakers in PJM if the market doesn't move fast enough. Thanks, guys.

A - Joseph Dominguez {BIO 16668698 <GO>}

Yeah, sure. I don't think that's really any different. I've now been in this business seemingly for so long that I remember these cycles over and over again. We've had these discussions before. But in states like Pennsylvania, states like Ohio, they've been pretty clear, let alone places like Illinois, where I just think that conversation would be impossible. They've been very clear that they want the markets to work and there's great evidence here that the PJM market has worked. We've seen high prices before in the PJM market. And in fact, even with these higher prices, the point I made in my opening remarks here is that we're still at a lower point than we were 15 years ago. And it's just -- it's a testament to the value of competition. I think stakeholders in those states get it. I think there is a genuine concern about the growth rates in terms of spending on the T&D system. And I don't see policymakers naturally going to the view that monopolization of the generation sector -- further monopolization of the generation sector is going to be the answer now, frankly, any more than I ever did. So, we'll respond to those points. But right now, we just have a new FERC process in the capacity auction. We need to give it the time to work. There's no evidence whatsoever through history or anything that's going on now that competition isn't going to address this problem, right? So, that's our view.

Q - Shar Pourreza

Great. Thank you guys so much. Appreciate it. Talk to you soon.

Operator

Thank you. Our next question comes from David Arcaro with Morgan Stanley. Your line is open.

Q - David Arcaro {BIO 20757284 <GO>}

Hey, good morning. Thanks so much for taking my questions.

A - Joseph Dominguez {BIO 16668698 <GO>}

Good morning, David.

Q - David Arcaro {BIO 20757284 <GO>}

I was wondering, does the outcome of the PJM auction just in terms of how high prices got, does that increase the urgency that you're hearing from potential data center counterparties to get some of these colocation deals done?

A - Joseph Dominguez {BIO 16668698 <GO>}

Yeah. I think it increases urgency both in terms of that and also urgency in terms of locking down in front of the meter deals because it is a tightening market and people are seeing that. And in particular for clean and reliable megawatts, it creates a huge opportunity, I think, for PJM's [ph] business to go and meet the demand of these customers. And we're certainly seeing that. We've reshaped the team. We've refocused the team through a lot of effort on PJM's part to go out and meet and address the needs of these customers and we're seeing a pretty significant appetite there. I think it also signals that even with the forecasted growth, right, because the data center growth was in the forecast that PJM used when it ran the auction, it's evidence that we have the supply needed in PJM to address this data center growth. So, I think it was a positive on two fronts. I think it -- now we have the forecast in and the market still responded with enough generation to meet the reliability needs of the system and -- but at the same time, we do see a tightening in the market and people need to get moving to lock up their supply. So, I think it's additive.

Q - David Arcaro {BIO 20757284 <GO>}

Yeah, got it. That makes sense. And then another question that we've had is, as you're working on data center deals, should we be assuming that dual unit plants make the most sense with one unit acting as backup or is there demand or certain structures where you could fully contract a dual unit plant? What would that structure potentially look like?

A - Joseph Dominguez {BIO 16668698 <GO>}

Yeah. Great question, Dave. For us that we started with the dual units because that made the most sense, right? One -- as you noted, one unit becomes the natural backup for the other unit during outages. But as we've gotten smarter in this, it really depends on the type of data center, whether it's an inference data center or a learning data center. And it really depends on what -- how the hyperscaler intends to evolve the facility. I don't think we've seen all the configurations. And I could easily see circumstances where behind the meter data centers are located in the same region as on-grid data centers and effectively provide reliability through fiber as opposed

through to -- through wires and backup generation where on-grid picks up the behind the meter data needs when the data center is in outage mode. So, we could see those configurations. I could frankly see those configurations evolving even at the dual unit stations. We're learning a lot. It's -- despite the enthusiasm, we certainly feel it and we know our owners feel it, we're still fairly early innings in terms of understanding all of the different use cases and how our resources will interact with the grid and will interact with these customers. Honestly, I think in talking to them, the customers are still figuring it out. So, I at this point wouldn't rule out anything. We do think the most natural place is the dual unit site, both in terms of the volume of electricity and the natural backup. We think those are going to be the first sites to be selected, and so far appears to be the case.

Q - David Arcaro {BIO 20757284 <GO>}

Okay, great. That's helpful color. Thanks so much.

Operator

Thank you. Our next question comes from Steve Fleishman with Wolfe Research. Your line is open.

A - Joseph Dominguez {BIO 16668698 <GO>}

Good morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah, hi, good morning. Sorry, I wanted to just try to kind of better clarify a little bit more on the colocation kind of timeline. So, I think we'll have a technical conference in the fall, but I don't think we're going to get kind of any next step from that probably till sometime in 2025, most likely, policy statement or 206 or whatever? And, I guess, we will have a Talen outcome by the fall. So, just in terms of thinking about just the realistic timeframe to kind of get the -- be helpful to get clarity as you said. I mean, is this something that we should kind of not expect to hear more until sometime next year or is this something that we could still see something happen even this year even as these things are still kind of in-process?

A - Joseph Dominguez {BIO 16668698 <GO>}

I think that something you're referring to is a deal done, right?

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes.

A - Joseph Dominguez {BIO 16668698 <GO>}

Yeah. So, Steve, I don't think we're bound -- time bounded by ultimately clarity in the FERC process. I do think the Talen ISA is going to be instructive and folks are watching that to make sure kind of it goes through or what conditions might get attached to that. But we

independently are working on contractual provisions that will allow us to manage whatever outcome comes out of those proceedings. And so, at least for the moment, we're working with our customer -- customers towards finalizing deals, and I could certainly see a circumstance where those things get announced and there's still some process going on at FERC or some discussion amongst stakeholders.

Q - Steve Fleishman {BIO 1512318 <GO>}

That's helpful. Thanks. And then just on -- one, this has been a very public, kind of gotten very noisy process. And I would assume some of these customers don't really love kind of seeing that and such. So, just, is that in a way impacting at all the ability to kind of get things done with the customer. Is that a concern?

A - Joseph Dominguez {BIO 16668698 <GO>}

Not yet, Steve, but the customers are paying attention to this. And by the way, so are the policymakers. Look, if this stuff is happening, and I'll just -- Talen is not our deal, but I'll use it as an illustration. Talen in that arrangement is bringing $10-plus billion, maybe more than $20 billion of economic development to a region that, if we're going to be honest, hasn't seen a lot of sunshine from an economic development standpoint of this dimension in a long, long time. And I think it's fair to say that policymakers around Pennsylvania like to see that for communities like this that aid jobs and economic opportunities. And I think it's fair to extrapolate from that that they won't like it very much if people interfere with those things and cause it to come off the rails. And so, I think the policymaker reaction, the labor reaction, which, of course, drives policymakers in many of our jurisdictions, they're all pretty important factors. So, I think we'll see that play out. And I think that pushes parties to try to work these things out.

The other thing is from a customer standpoint, right, you want to be in a jurisdiction that is pro and friendly to data centers and gives these companies every option. And I think in the early innings that probably isn't the case. And I noticed that you pointed that out in some of your research. So, look, we're not at a place right now where people are saying, have a circle around a particular jurisdiction with a red stripe thrill like the Ghostbusters thing. But I think people are paying attention to it. Policymakers want this to happen. They want the parties to work it out. So, at the end of it, we will go anywhere we need to go to have a discussion. If we could only have the discussion in proceedings, state or federal, we'll have the discussions in state or federal proceedings. But we think the clear signal from what happened at FERC from the rejection of ban legislation in Maryland is to tell parties, work these issues out, this economic development is important. I don't think we're the only ones hearing that message. And we'll strive and we do this every day to have conversations. You don't have to have every policy conversation in a proceeding. And frankly, if we did, regulators and lawmakers would never sleep. So, we need to continue to have those discussions.

I just -- in my view, Steve, it's this. If you have clean energy centers in your jurisdiction and you could offer that opportunity, that's a huge advantage for the incumbent utility to make the state a place that's friendly to the data economy. And what we've seen before is one data center attracts more because they kind of work together. So, I just think the approach here of thinking about this as a zero-sum game is really just kind of the wrong mindset. And I think we just got to kind of get through that phase here. And where you are working very hard to do it, our owners expect us every day to work on the things that bring the spectacular results that our team is

announcing today. That's what we want to be working on. We don't want to be tied up in proceedings all over the place. We will if we have to, but we prefer to resolve these issues in a way that's friendly to what policymakers want and what customers want. That's what we aim to achieve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Thanks for the clarifications. Thank you.

Operator

Thank you. We have time for one last question, and that question comes from Paul Zimbardo with Jefferies. Your line is open.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Hi. Good morning, team.

A - Joseph Dominguez {BIO 16668698 <GO>}

Good morning, Paul.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Thanks for squeezing me in. Yeah, no, thank you. Lots of good content today. I want to shift and kind of run with that last one you mentioned a little bit. I know we're all focused on FERC, but you mentioned Maryland. Just holistically, what are some of your state legislative priorities to support the colocation strategy? I know Maryland has Senate Bill 1, but if you could just comment more broadly what kind of the focuses are at the state level? That'd be helpful.

A - Joseph Dominguez {BIO 16668698 <GO>}

Paul, I think we're going to be largely reactive to what we're seeing, but we will work with customers with labor unions and others to make sure that all opportunities remain on the table for economic growth. But we're not sitting here thinking about launching legislation. We think this is like the co-gen stuff that I alluded to or the microgrid stuff that we've talked about largely handled in the regulatory arena.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Understood there. And I know in your prepared remarks, you talked about some of the customer bill impacts from the PJM auction, some of the benefits for all parties from the colocation strategy. But just curious, if you have any initial estimates of like what the benefits would be in terms of rate reductions for rate payers, if there was like a hypothetical 1 gigawatt data center or colocation, some of your peers have kind of put out some numbers, but curious if you've done the analysis that you're willing to share?

A - Joseph Dominguez {BIO 16668698 <GO>}

Well, I will point to either Kathleen or, David Dardis, our General Counsel, we could talk certainly about some of what we've presented in our case, but we have generally seen a $1 billion of costs associated with a 1 gigawatt of load, right? And in jurisdictions where a lot of that is socialized, 90% or more, and frankly, I think that's an underestimate because that just includes the kind of direct substation work, it doesn't include the work behind the substation that may be necessary. But we see some jurisdictions where a lot of that is spread out to many other customers. In our applications, those hyperscalers are paying for the connection. Now, it's not a $1 billion because the connection is occurring right at the plant, which is the point, right? So, what we're doing is creating switchyards and other things that are one-tenth of those costs to connect the same amount of load, but you could see easily a factor of 10x, I actually think it's more, when you talk about putting a data center out on the grid somewhere and a lot of those costs get socialized to customers that aren't the hyperscalers. And so, that's the real benefit.

But the other thing that -- that, look, Paul, when we're talking about this, we are pretending as if the grid could easily host a 1 gigawatt of load. When I was at ComEd, the largest load we ever had in the system was steel mills at 150 megawatts, right? If -- when I was General Counsel at PECO, the largest load or one of the largest loads we had were the refineries in Philadelphia, 60 megawatts, 70 megawatts. The notion that you could accumulate enough power somewhere on the grid to power a 1 gigawatt data center is frankly laughable to me that you could do that in anywhere that doesn't start with decades of time, right? This is an enormous amount of power to go out and try to concentrate it. Think about it, you're building three 345 KV lines with all the attendant substations to create all of the redundancy, each one of those substations having to draw power from an independent source. It just -- it has always made sense. This is not new. It's always made sense that when you're talking about large load, you're going to bring it closer to large generation resources. And when you're talking about large load that also wants to use zero-emission energy, you're going to bring it very close to nuclear power plants.

We need to make sure that policies don't inadvertently drive us to spending billions of dollars, where cheaper solutions are available, quicker solutions are available. And from an electrical engineering standpoint, more prudent and frankly feasible solutions are available. So, we're going to have those policy discussions, but I think that's what's going to be revealing in the FERC discussion. And I think it's powerful if you want to take a look at one document that I think lays this out pretty clearly, Mike Kormos, who for many, many years was the leader of transmission, all things transmission at PJM, published a report. He was also Senior Vice President of Transmission for Exelon for a period of time in his career about exactly the issues I just described. The feasibility of connecting and the cost of connecting super large loads somewhere on the grid as opposed to colocation. I think it lays it out pretty succinctly in his expert report. Those are the things we'll be talking about to regulators and policymakers. There's going to be opportunities for data centers in both places, but dimensionally, the bigger we get, the closer we're going to be to the generation source if we are going to have any chance of doing this in a manner that addresses the nation's need for timely action.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Great. No, thank you, again. Really appreciate all of the context.

Operator

Thank you. I'd like to turn the call back over to Joe Dominguez for any further remarks.

A - Joseph Dominguez {BIO 16668698 <GO>}

Well, thank you. We've had a great beginning to the year. And, again, just want to give a shout out to our all -- all of our folks that made it happen. We really feel strongly about our performance to-date. We really feel strongly about what we think we're going to be able to accomplish in the balance of the year and the work we're doing. Appreciate the robust discussions we've had today around colocation. One always gets concerned that one particular issue distracts from the overall benefits of the company that have -- that are really laid out in the last slide we have in the deck about the unique opportunities we have here. We're super-excited about them. We appreciate your attention, your focus on Constellation, your ownership and I guarantee you we'll continue to focus on the things that create value for you.

With that, Michelle, I'll end the call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.