

Q4 2023 Earnings Call

Company Participants

- Daniel Eggers, Chief Financial Officer
- Emily Duncan, Senior Vice President, Investor Relations and Strategic Growth
- Joseph Dominguez, President, Chief Executive Officer

Other Participants

- Agnieszka Storozynski, Analyst, Seaport
- David Arcaro, Analyst, Morgan Stanley
- Durgesh Chopra, Analyst, Evercore ISI
- Neil Kalton, Analyst, Wells Fargo
- Steven Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good day ladies and gentlemen. And welcome to the Constellation Energy Corporation Business and Earnings Outlook Call. (Operator Instructions)

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, Latonya [ph]. Good morning, everyone. And thank you for joining Constellation Energy Corporation's business and earnings outlook 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 an 8-K this morning, which includes our earnings release detailing 2023 results along with a separate press release and business outlook presentation to be covered on today's call,

all of which can be found in the Investor Relations section of Constellation's website.

The materials in the 8-K and other matters, which we discussed 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 it over to Joe Dominguez, CEO of Constellation.

Joseph Dominguez {BIO 16668698 <GO>}

Thanks, Emily. Latonya [ph], thanks for getting us started this morning. And Emily for starting our agenda. Thank you all for joining us today.

While this call is going to be focused on 2024 guidance and Constellation's future, I want to start out by commenting on the outstanding year we had in 2023, where we materially raised guidance in both the second and third quarter calls and yet still managed to exceed the top of the range in our full year results. It's Constellation's second full year in business, and I think it's powerful that in both years, we exceeded the midpoint of our guidance range and last year, just really (inaudible) it.

We hope that these results underscore for you the importance that our entire management team places on meeting all of our commitments to you, and we're going to continue to do that. As always, the secret sauce here at Constellation is a unique mixture of best generation assets in the world and a best-in-class commercial business, all run by an outstanding team of women and men.

And I want to take a moment thank them for the wonderful results because they're the ones that deserve the credit.

Turning to 2024 in the future. I'm going to kick us off by focusing on our unique business and the advantages we see coming to us in this evolving marketplace. First, I'll talk a little bit about who we are, best operator of carbon-free nuclear plants in the world, backstopped by a nuclear

PTC by the federal government and with a wide-reaching commercial business that's focused on the kinds of customers that need us the most.

Second, that in the changing power markets, we provide something that I think others struggle to do. And that's carbon-free energy and reliability together. We think that's going to be the bedrock of the future for the country. And third, that we're best positioned to capture value in volatile markets and through the energy transition by selling the clean and reliable attributes of our 180 million-megawatt hour nuclear fleet.

Now Dan is going to follow up and discuss our 2024 EPS guidance range of \$7.23 to \$8.03 per share, our visible 10%-plus growth on the vast majority of our earnings through the end of the decade, which we call base EPS and our updated 2-year free cash flow outlook. Dan also will cover some of our new disclosures and walk you through that. And I appreciate that we've already heard this morning from a number of investors who find those to be very useful. Hopefully, you all will.

So let's get started on Page five of the materials. Constellation is a special company that supports our countries and our customers' economic growth and sustainability goals. As we've said from the very beginning when we launched this company, the most important and valuable energy commodity in the world today is carbon-free electricity that operates predictably and reliably. And we produce more of that than anyone.

Our fleet has the best track record stretching back for well over a decade as being both the most cost-effective and reliable in the world.

Our scale cannot be replicated because we already own more competitive nuclear generation than all of the other U.S. competitive nuclear generators combined.

Likewise, our assets have a special longevity. The longevity of our asset base is unparalleled, and we could operate for at least another 30 to 40 years. In a conflicted political world, nuclear energy emerges as a consensus pick for both Republicans and Democrats because of its unique qualities. The reach of our customer business serving nearly 1/4 of all of the commercial industrial demand in the U.S. and 3/4 of the Fortune 100 puts us in the best position to use our unique assets and capabilities to meet the needs of our customers.

In the same vein, the combination of our assets and commercial business give us the ability to earn enhanced earnings over and above the base earnings of the company, just as we did the first two years of our business. We will continue to use our high investment-grade balance sheet and disciplined approach to capital allocation to create value for you including through share buybacks because we firmly believe in the future value of this company.

And as our nuclear fleet and customer business help meet the growing demand for clean, reliable energy to power the U.S. economy, there are multiple opportunities for us to generate base earnings growth beyond the 10% that we're laying out today. And I'll walk you through that.

The world clearly is moving in our direction. In the coming years, the demand for reliable and clean energy will only grow. We're the ones that are best positioned to meet that growing demand for clean energy and to tackle the energy transition to unlock the value through compensation for the unique, clean and reliable attributes of our 180 million-megawatt hours of nuclear and to help America power the technologies of the future, whether that be EVs, electric heating, industrial electrification or the booming demand for the data economy that America must lead in for both economic and national security reasons.

The production tax credit uniquely gives us the ability to be patient so that we could capture the value in this evolving market through strategic hedging and portfolio optimization. Simply stated, because of the PTC, we can now decide whether and frankly, how to hedge our fleet. We don't have to hedge a third, a third, a third. And that option, that flexibility is enormously valuable and will drive enhanced earnings for us and we could use the cash flow from these earnings to consolidate the industry that on ourselves through buybacks and make double-digit unlevered returns on growth investments.

In some, no other company has such a potent combination of predictable growth, upside exposure to power markets, strong cash flows and the downside protection from the federal government.

Let's turn to Slide 6. As I mentioned a moment ago, this team is committed to delivering on the promises we make because we know that delivering on promises is the way to create long-term sustainable value for our owners. So as we celebrate Constellation's second anniversary as an independent company, Slide 6 is a summary of the promises we made to you, promises we have kept. It's a long list, but I just want to highlight a few items. As I noted earlier, we've outperformed our financial expectations.

Our balance sheet remains a competitive advantage and is now BBB, thanks to upgrades at both S&P and Moody's. We've accumulated growth of our dividend of 150%, exceeding our 10% annual target. We have also completed our first \$1 billion buyback, and we started a second \$1 billion buyback in January.

Now for several calls, I've reiterated that we're happy to buy our shares all day long, and we still feel that way. And I'm proud to say that, that commitment to the future of value of this company has already delivered value for you.

Buying back our own shares has been one of our best investments. It's already created \$400 million in value. We successfully advocated for the inclusion of the nuclear PTC in the IRA, which is a game changer for our business. We've had a disciplined approach to M&A, adding our ownership in SDP to our fleet because of our focus on dual unit nuclear power plants and the competitive advantage they have.

We made the smart decision to aggressively by fuel and secure cost for this decade and beyond. We created a narrowly matched carbon-free energy product for our customers, and we're selling that product now to sustainability leaders like Microsoft. And I think it's going to position us well in this data economy. We've begun the process to extend the lives of our

nuclear fleet, which brings our asset lives to 80 years. And we've maintained our status, and this is the most important thing.

We've maintained our status as the best operator of nuclear power plants in the world. We're very excited to have accomplished all of that and all the things that are listed on this slide in two short years, but we're even more excited about what the future brings.

As I turn to Slide 7, we've talked about this before, but I want to spend a few moments talking about how the nuclear PTC and how it's fundamentally changed our business now that the program is in effect.

Prior to the PTC, the outlook for our nuclear fleet was dependent on power prices, low or high, and our revenues would fluctuate year-over-year, sometimes quite significantly. The PTC has changed that. At its core, the PTC ensures that our fleet will have revenue visibility starting at \$43.75 per megawatt hour in 2024. This provides our fleet with significant downside protection, ensuring its operation but we keep the upside above the PTC floor.

And the upside is unlimited.

In addition, as you can see on the left-hand side of the chart, the PTC floor revenue grows with inflation and will support our earnings per share growth target.

Now we're assuming that the PTC grows at 2% in our financial disclosures, including our 10% growth rate target. However as you could see on the right, higher inflation than 2% would have a significant positive impact on our revenue growth.

So if you believe that 2% is going to be hard to hold for a decade or more, this is a company that you ought to be interested in. For example, in 2028, the difference in revenue between the 2% and 3% inflation cases is more than \$750 million and in a 3% inflation case, our EPS growth rate would be in the mid- to high teens rather than the 10% we're talking about on this call.

It's really quite significant.

Let me turn to Slide 8. And what we want to talk about here is the public support that's growing as well as the political support between Republicans and Democrats who recognize the importance to our energy system of baseload power, baseload clean power from a transition and a national security standpoint. You have quotes here from both President Biden and former President Trump, both whom are proponents of nuclear energy.

Prior to the PTC, states stepped up with programs to ensure that these valuable resources do not prematurely retire. Now in Illinois, some of those programs were signed by Republican governors. Other times, they were signed by Democratic Governors. At the federal level, it was federal -- it was a former President and Trump, and you might recall this, he was focused on the need to retain baseload energy. It was the right idea.

And remember, he proposed using DOE's authority, its emergency authority under 202C to support existing nuclear plants when he was in office. And it was Republicans both in the House and the Senate who were among the first to introduce tax credit bills for nuclear. So in a sharply divided political world where the parties don't seem to agree on much, each party recognizes the unique and critical nature of nuclear energy and how essential it is to our country. So as a consequence, we believe that the policy is durable now and into the future.

Let's go to Slide 9. Slide 9 kind of shows you the many reasons why policymakers and the public have come to appreciate nuclear and I think it really does a good job here of summing up the case for nuclear. On the upper left-hand side, you could see that nuclear produces more energy for the same amount of installed capacity than any other energy technology. It operates more than 90% of the time, in our case, operates 95% of the time. And that's nearly three to 4x greater and wind and solar.

It's also there 24 hours a day in the heat of the cold, day or night, no matter the weather. The grid reliability and support provided by nuclear is unparalleled by any other energy resource. And I got to tell you, this is not theoretical. We've already seen this an event after event, whether it was the polar vortex and (inaudible) the Elliott Event, the Uri Event or numerous others, it was nuclear that carried this system on its shoulders and people know that.

Now moving to the bar charts on the upper right side of Slide 9. Note the existing nuclear plants could run at least for 39 more years. And I'd say at least because we believe that some of our plants could actually run to 100 years, much longer than existing wind and solar operating today and it's also longer than all the renewables that are being built right now, and we think all the renewables that will be built this decade.

Going to the chart on the lower left shows that nuclear has the lowest life cycle emissions of any technology. This is a big thing from a sustainability standpoint. Now we've included here everything from construction to the mining of fuel in this calculation. And that makes nuclear the best technology from a climate perspective. And then on the lower right-hand side of the slide, you can see that nuclear is essentially tied with solar as the safest technology, highlighting the safe operations of nuclear plants and the abundant power they produce and their ability to do that without emitting harmful pollutants into the atmosphere.

And finally, look, unlike any other technology, nuclear is the only generation resource where we know and control where every gram of fuel is, and we have set aside the funds to restore the sites to greenfield condition after eventual plant retirements many decades from now. So in a nutshell, whether you're talking about sustainability, safety, reliability, waste management or long-lived durability, Nuclear offers benefits at levels that no other resource can. And that's not all. It uses a lot less land. It could be positioned almost anywhere and it creates more family-sustaining jobs than any other generation type for us, right?

We just start -- we started the company with 13,000 employees. In the last two years, we hired 2,500 people and these are long-term jobs and the communities love those jobs. And of course the politicians love those jobs. Nuclear is the backbone of the energy system now, and it will become even more important in the future.

So as we turn to Slide 10, I want to start talking to you about the kind of changing energy fundamentals we're seeing in the market. We all know that the clean energy transition must happen, and it is happening and Constellation's role in it will only grow. But as American transitions, there will be impacts on electric reliability and electric markets. BIA, the Energy Information Administration forecast that installed generation has to grow. And what you could see on the chart on the left-hand side is that what we're seeing is intermittent generation replacing dispatchable generation.

It's been happening for a while. At the same time in the market, if you look at the chart on the right-hand side, you could see we're beginning to see for the first time load growth.

And I'd say for the first time, we've seen load growth in places like Texas. But of course PJM, we've kind of seen a flat line on load growth for a decade or more, but that is changing. PJM's peak demand forecast for 2028 increased by 2% just in the last year. ERCOT's forecast for 2028 increased a whopping 6.6% that increases being driven by economic development across the country. This past year, more than 200 manufacturing facilities have been announced and almost 0.5 trillion investments have been made since 2021.

We're seeing onshoring of businesses from Europe and other parts of the world that simply don't enjoy America's affordable energy dominance. And we're seeing onshoring of supply chains here in America due to political tensions that are rising between the U.S., China and other nations. We're seeing electrification of transportation, buildings and manufacturing. We're seeing increases in the frequency of extreme weather events driving peak demand growth. And the demand growth is being talked about quite frequently in the data economy where AI is driving significant increase in these forecasts.

So we think the combination of the energy transition, deteriorating supply reliability as we lose dispatchable generation and rising demand is all going to put a premium on clean energy resources that are reliable. And again we own more of them than anybody in the world. And in short, we're seeing the signs in this marketplace for the first time in a while where we're seeing prices begin to converge on the cost of new build. And I don't know that we know that cost just yet. When we think about the offshore wind that has been challenged in the Mid-Atlantic and other areas.

We're now seeing prices that are well above \$100 a megawatt hour, and that's without the kinds of storage and other things that would be required to make those things anywhere close to the reliability of a nuclear power plant.

So as I turn to Slide 11, we want to kind of talk a little bit about the data economy. I know that it is something that is a focus for many of our investors. Boston Consulting Group believes that AI and regular data center demand will grow by 7% to 7% of total electricity demand by 2030. To put this in context, this is the equivalent of the electricity used for lighting in every home business and factory across the United States. It's a huge amount of energy.

Most traditional data centers that were built 10 years ago were 10 megawatts or less.

Today it's not uncommon to see 100-megawatt data centers. And with our clients, we're talking about data centers that approach 1,000 megawatts. And they require 24/7 power. This is something that doesn't get talked about enough in my opinion.

When we do system planning and I've done this over the course of my career, we don't just kind of willy nilly decide what generation we want? We first look at the load profile, what's growing in the economy. So for example, if it's peaking load like air conditioning or electric heating as an example, as we get into the energy transition that kind of load growth will call for a particular kind of generation, peaking gas, mid-merit gas [ph] or in the future batteries. But if the load growth is 24/7 base load growth, then it calls for a very different technology, and that's us.

Data centers are 24/7 consumers. We are 24/7 producers. So it's kind of a perfect marriage. And then when we add on top of that, our ability to provide clean energy to meet the sustainability objectives of this company. We think that there is an opportunity for us that is quite sizable.

And we think the advantage Constellation could bring quite frankly, is that it could meet this demand across multiple jurisdictions, and we could frankly serve the needs of some of even the largest customers in the world. So it is certainly exciting for us and something I'm sure we'll talk about.

As we turn to Slide 12, what we're going to talk about here in 12 and 13 is both seasonal and day-to-day variability. And what I want to put in your mind is the challenge of serving load when we're seeing this sort of variability, a challenge that we don't believe we face at Constellation given the profile of our generation assets. Now look, before we start this, I want to be clear. We think renewables have an important place in our efforts to decarbonize. Constellation's off-site renewable business has grown rapidly and we're on track to grow the business by 3% to 4% of the volumes that we were talking about just in 2021.

So our customers very much like renewable energy, but they also are striving to get to 24/7 clean energy. And the intermittency of renewables does create some challenges for grid operators. So what you could see on this slide here is really kind of a macro seasonal disconnect between the performance of renewables and demand growth. You could see here that demand growth, no surprise here, is peaking in July and August. And we also see that a lot of renewable assets are underperforming in that period of time.

When I did a lot of work in the Midwest, it was very common for a 10-year period or more that we would see capacity factors for wind in the Midwest drop to 5% or lower on the very hottest day as beer. That's why people talk about hot still days, it happens.

And so again it's -- if you have a lot of dispatchable energy, you can address this, but as dispatchable energy is retiring, this load has to be picked up by nuclear plants. It's one of the challenges we face. So it's not just a seasonal challenge. As we flip to Slide 13, you kind of see this on a day-to-day basis, particularly in the spring and the winter, these moves could be 50% of production or to give you some sense of the dimensionality of this. It's the equivalent of instantaneously turning on and off five nuclear reactors without notice.

And so if you step back, you could well imagine that managing this much day-to-day and seasonal variability in the system that expect certainty and reliability is going to be a big challenge, and we're seeing that. But it's also an opportunity for us because as other firms are selling into this market and they have to deal with clients that need 24/7 power, right, and clean power like utilities, like the data economy. They have to translate the ability to find this power in the market into higher risk premiums into their bid, right? because there's going to be scarcity in certain hours. But that's not true for Constellation.

Because our unique blend of reliability and clean assets gives us the ability to meet customer demand in any single hour. So those higher competitive risk premiums that other folks see turn into higher margins at Constellation and our owners benefit from better results and enhanced earnings while our customers benefit from reliable energy and sustainability.

Let's take a look at Slide 14. We put an ERCOT slide in here because in many respects, we think ERCOT is an example of where other markets are going. And so that's just a powerful data point here. In 2023, ERCOT had 222 hours where demand exceeded 80,000 megawatts compared to just one hour in 2022. ERCOT also exceeded the all-time summer peak demand set in 2022 and 2021 by 11.8 gigawatts for an incredible 16%.

And the system isn't just constrained at peak, I think historically, we would have said, well, then there are challenges at peak. But what we're really seeing here, and I think this chart does a really nice job of it, is that it's not necessarily peak demand that is driving high prices. When wind and solar make up less than 26% of the total demand, the prices in Texas start to move dramatically higher and kind of asymmetrically higher and into the thousands of dollars per megawatt hour. These high prices are signals that the market is giving to investors that there's a premium on reliability. And these prices quickly carry over into the average price of the year.

For example, every hour at the maximum price of \$5,000 per megawatt hour impacts the full year price around the clock energy price by \$0.50 per megawatt hour. So you don't have to see a ton of these hours to move energy prices, and we've seen that. And we think that what's happening in ERCOT is eventually going to happen in other markets to different degrees. And frankly, ERCOT has some advantages in that the solar and wind profiles there are among the very best in the entire nation.

So the thematic is this. Reliability is equally as important as sustainability and we have to solve for both. And that's why we say the most valuable energy commodity in the world today is a commodity that does both of those things. And that's what Constellation owns. Nuclear sustainability attributes were ridiculously undervalued for so many years.

And it's now beginning to be recognized, but it's only the beginning and we're still a long way off, as I mentioned before, of fully understanding or evaluating what clean and reliable energy together means. We think that spells a very good future for Constellation to exceed what we're talking about this morning.

As I turn to Slide 15, our states were the first to recognize how vital nuclear was in supporting the economy and the environment. New York, Illinois, New Jersey, Connecticut, they had controversial programs, I would say in the ZEC programs for nuclear initially, but they all look

pretty prescient now, don't they? And what we're seeing is that customers are following their lead showing a more willingness to contract for the attributes of our fleet. And we have quite a few ways to monetize getting paid for these attributes. And we're going to be able to sell those more and more as the state programs roll off.

And as we progress through the decade, you could see on the chart on the left-hand side, we're going to have a full 180 million-megawatt hours of clean nuclear power to sell annually that is leveraged at exactly the right time these transitions in energy market and the economy are occurring.

And so as I talked about it earlier, we see opportunities in the data center area for 24/7 clean generation because of the sustainable needs, because they need energy 24/7 and our dual unit sites are competing for behind the fence line opportunities with those technologies. Depending on the outcome of the treasury -- final treasury rules and if we don't get the right outcome, depending on the outcome of litigation, hydrogen remains an opportunity for us going forward. We are committed to the view that we are correct in the interpretation of the statute and will win.

The states and the federal government are now entering into the marketplace to look for hourly match carbon-free energy. We've seen that in the case of ComEd. And we continue to see opportunity with our customer C&I customers who want to follow the lead that Microsoft and ComEd have set for an hourly matched clean energy product. Importantly, when we talk about the 10% growth for base earnings through the decade, these opportunities aren't included in either our forecast or our expected growth rate. Now that's a little bit early to share what we think the value of the attributes would be.

And I think this is the kind of thing that gets -- needs to get updated as contracts get signed. But if you just look at the chart on the upper right-hand side, you could kind of see the impact. If we sold attributes for half of our fleet at \$10 per megawatt hour, and I'm not signaling that \$10 the right price isn't. But that alone would be \$900 million of additional revenue. And since there's no additional cost test to generate the revenues, the upside would be more than \$2 of additional earnings per share.

So you can kind of see how both inflation and the sale of attributes meaningfully change the 10% growth rate and make sizable leads to upwards of 20% or more. And remember, while we pursue the opportunities from the market through attribute sales, our revenues are protected by the PTC.

On Slide 16, I want to bring back a couple of the points I've already made. We're the largest generator of nuclear power in the country, all of which sits in competitive markets. And you could see from the chart on the left-hand slide here that if you accumulated all of the other merchant or competitive nuclear in the market, it still doesn't total what Constellation is. But more than that, our fleet is overwhelmingly dual units. If you think about the 25 units we're invested in, all but Clinton and Ginna our dual unit sites that enjoy those economics.

And that's important both from the cost of producing the megawatt hour, but also behind the fence line opportunities with data centers and others.

We're the cleanest generator with the most attributes to sell in the market. And because we could operate in competitive markets, we have the opportunity to create value unlike any regulated peer. And we're the best operator of plants, and we've led the industry, and you could see this on the right-hand side, and we produce more energy by something like 4% of capacity factor than the industry average. That doesn't sound like a lot. But operating 4% better than the industry average is the equivalent of having another reactors worth of power or for you, \$335 million in additional revenues with costs only higher for the fuel consumed.

If I turn to Slide 17, I want to talk a little bit about what we're seeing in the competitive C&I market and how these businesses kind of fit together very well from our perspective. The story here isn't just about sheer size. You could see on the upper chart here that we're the second largest retail supplier. It's the composition of the customers that we have. We've been focused from the beginning on the C&I customer base.

Again when you think about our generation profile, providing 24/7 power, we want to have the kinds of customers that have a load profile, demand profile that works best with our machines. And that is commercial and industrial customers.

Secondly, these are the kinds of customers that have sustainability goals. So as we introduce products like 24/7 and as we continue to roll out core with its sizable growth, which is our offsite renewable program, it's become a real win-win for Constellation and its customers, and we could serve that load with lower risk than others meaning the margin expansion that we foresee will go into our earnings.

Now Slide 18 talks about how we're uniquely positioned to help our C&I customers meet their demand. And frankly, like our country, Customers are on a journey here to meet environmental and sustainability goals. And to do that in a way that is most affordable. And we've positioned the business to be a great partner to these customers. We anticipated the drive for clean energy, and so we created the emissions-free energy certificates, the effects that now effectively memorialize nuclear generation.

We've worked with PJM and other RTOs to have the data available to the market so that customers could see the hourly match because we know that this is moving towards hourly match and already has.

Customers wanted energy tied to specific projects. So we created our core off-site renewables program, and we work with renewable developers to match their projects with our customers. And as I've said several times here, we're leading the way with the first truly hourly match carbon-free program in the market. Customers now get to see a particular asset that produces their clean energy where we need it. And the big thing here, folks, I think the change has been the acceptance of nuclear as a sustainability solution, been around for a long time.

And years ago, we couldn't get customers to look at nuclear, regardless of its economics, it's reliability or its environmental benefits. But that's changed. States led the way and customers increasingly accept nuclear and that opens the door for us to have a sales discussion. And once customers see what we could do from an affordability and time match perspective, they like it.

And our customers are exploring behind-the-meter opportunities and we're looking at different partnerships as that landscape evolves.

As we move from just energy to more sustainability products. The other thing we're looking at is the duration of the contracts tends to expand. And so we see margins significantly above historic margins and the duration of term that is significantly longer. And that adds to visibility of our earnings for the decade and beyond. Our customer relationships and the focus on C&I will put us on the path to monetize the assets that we have, we uniquely have and the reliable and clean energy.

So I'll close this part of the presentation with Slide 19. The success in the outperformance of the past few years would not have happened had we not had this unique world-class generation portfolio with the best commercial team in the business. And we've integrated those two things as one part of the platform. Over the past two years, our commercial business has demonstrated that it could thrive in volatile and changing markets. And I think that's what we're going to see going forward.

I think all of the data indicates volatility and change both from growing demand and the turnover and the composition of the fleet is going to lead the volatility and our team is well positioned to handle that because of the stability of our assets. So we're going to be able to price in higher margins to customers to manage their exposure through these volatile moments. We're going to be able to optimize our individual generation and load positions to create the best position using both understanding that we control fully now when we hedge, we're going to be able to sell customized sustainability solutions. And these businesses will work in tandem to serve our customers, help America transition and provide the carbon-free and reliable energy that we need. And I think it's going to produce results that are better than our current plan.

So now I'll turn it over to Dan to talk a little bit about the financial outlook and some of the changes that we've made. And again very much appreciate the positive comments we already received. Dan?

Daniel Eggers {BIO 3764121 <GO>}

Thank you, Joe. Good morning, everyone. We're very proud of what we've accomplished since we launched, and we're even more excited about what lies ahead. I'm starting on Slide 21.

As Joe outlined, the nuclear PTC has fundamentally changed our business by providing revenue visibility, supporting earnings growth through its built-in inflation adjustment and protected against power market downside by providing a floor or base level of earnings while maintaining exposure to higher prices. From a mechanical perspective, the PTC will be treated as an after-tax revenue stream that will fill the gap between spot revenues at each plant.

What we consider the after-tax earnings support our high investment-grade credit ratings and our strong free cash flow generation to support reinvestment or return of capital to our owners. We are transitioning our primary financial metric to operating EPS. Our guidance range for 2024 is \$7.23 to \$8.03 per share up considerably from the \$6.28 earned in 2023, which I'll remind you as well ahead of our original expectations for last year.

On Page 31 of the appendix, we provide 2023 EPS by quarter to help you calibrate against last year. And since EPS is new, the easy rule of thumb is every \$4 million of pretax equals \$0.01 of EPS and ties back to some of Joe's slides earlier. More than just helping to prompt the change to EPS, the nuclear PTC is reshaping how we approach the sale of electricity from our nuclear plants.

Historically, we hedge on a 3-year ratable basis to provide earnings visibility support our credit metrics and ensure that we have the cash needed to run the business with the downside revenue protection from the Nuclear PTC and current interpretation of gross receipts. We no longer need to hedge our generation output in the same way allowing us to better take advantage the power price moves.

This also means the traditional way of modeling the company is changing.

To help, we are also introducing new disclosures also provide simplicity, a longer time horizon and greater visibility into our business that you've all been asking for.

Turning to Slide 22. Our total earnings can be thought of in two parts. First, we have a significant portion of our business, which delivers consistent, visible and easy to calculate earnings that will grow over time. This goes beyond the support the PTC provides our nuclear fleet and includes our commercial business and non-nuclear assets. We call these base earnings, and they can be easily modeled to use simple PxQ.

For example, retail margins x volumes sold and the nuclear PTC price x generation output. Base earnings for 2024 of \$5.45 to \$5.55 per share, which we are confident will grow at least 10% through the decade.

I'll discuss the tools for calculating base earnings in a moment. To get to our total EPS, we have a second bucket that we call enhanced earnings. Our company consistently makes more money than what is captured and the easy to calculate base earnings, but these earnings don't comport to the same PxQ math and can also vary year-to-year depending on market opportunities.

Our extraordinary results last year, a good example of outsized value capture, created by market volatility that provided an opportunity for greater margins. When we look forward, you can think about enhanced earnings (inaudible) including stronger-than-average retail margins, realized power prices above the PTC floor and capture value from volatility driven by the factors Joe talked about. We feel comfortable that enhanced EPS will add at least 10% to 20% to total EPS on top of base earnings, but we're doing better than that in 2024 and 2025 due to the big backlog gains and forward power prices in those years. This breakdown in the base and enhanced earnings are modeling tools, which will help provide visibility into our disclosures and greater clarity into our business.

We plan to refresh the split on base and enhanced once a year when we provide new guidance on the fourth quarter earnings call.

During the year and for our quarterly results, we only report total EPS.

Turning to Slide 23. Through the end of the decade, our base EPS will grow at a compound rate of at least 10%. And we see opportunity to do better since this outlook assumes a 2% inflation rate for the PTC adjustment, does not include getting paid for our clean and reliable attributes through data centers or additional CFE sales that Joe talked about or margin expansion from our customer business that we have seen in recent years to name a few potential drivers. All of those items would be additive to our growth rate. I do want to be clear that the growth rate will not be a straight line.

It will vary from year-to-year due to a variety of factors, including the lumpiness of the PTC floor adjustments as well as the number and duration of outages in any year. You can see this most clearly when looking at 2026. At 2% inflation, the PTC does not increase that year. And it is a heavy outage year where we also expect longer-than-normal outages because we'll start in selling our turbines for the upgrades of Byron and Braidwood.

Over the long term, we are confident that we will grow base EPS by at least 10%, and we've included all the tools you need to be able to model and validate our outlook.

Moving on to Slide 25. You can see the types of simple tools that can be used to calculate base earnings. The model inputs, including costs can be found on Pages 32 to 34 in the appendix and will help you model out to 2028. For our generation fleet, we provide expected generation x price. (inaudible), this is broken down by the CMC units in Illinois, New York units inclusive of the ZEC revenues and the remaining PDC units.

On the nonnuclear side, we provide capacity prices and volumes, historical renewable PPA prices and minimum expected spark spreads. On the commercial side, we provide 13-year average historical and forecasted margins for both our power and gas businesses, which captures the vast majority of the base earnings for our commercial business. We have other businesses like Constellation Home, energy efficiency and portfolio management that year in and year out consistently contribute to our earnings. These tools will help to easily model Constellation well into the future giving you much longer visibility in the base earnings.

Moving to the next slide. We know that we'll earn more each year than our base earnings, and you can see that with our outperformance in the last two years. As I mentioned earlier, these earnings are not as easy to model from a PxQ approach, it can vary year-to-year as we take advantage of market opportunities. That said, we are confident that we'll continue to drive additional value from our competitively advantaged businesses.

For 2024 and 2025, commercial margins will be above the 13-year average used in base EPS, which we've already put into backlog through forward sales made in '22 and '23. For example, in 2024, we are seeing electric margins \$1.75 per megawatt hour more than the 13-year average as we've monetized recent commodity price volatility and as customers have wanted the certainty that a fixed price product offers them. Enhanced earnings are also benefiting from plants where power prices are above the PTC floor as well as optimizing positions between our retail and generation businesses.

When we look into the future and the assumptions underpinning base EPS, we expect enhanced earnings to add at least 10% to 20% to total EPS in typical years, but see that contribution higher for the next couple of years given the extraordinary commercial margins we've locked in.

On Page 35 in the appendix, we provide some inputs around enhanced gross margin, this should help add dimension to this earnings stream.

I'll now turn to our capital allocation plan on Page 26, which should look familiar to all of you. Our goal is to deliver value for our owners through the capital allocation plan on our philosophy on how to do so is unchanged. Our high investment-grade credit ratings are our foundation. Our strength has been recognized by both S&P through our recent upgrade of BBB+ and by being placed on positive outlook at Moody's. Our high investment-grade credit ratings and strong credit metrics reflect the high-quality nature of our business.

We remain committed to the dividend, we'll grow our dividend per share by 25% this year, starting with the March 2024 dividend, bringing our total dividend increase since we started in 2022 to 150%. We'll continue to target 10% annual growth in future years. We will continue to invest in our assets, which will supply the grid with clean energy from our nuclear fleet for decades to come and help decarbonize the American economy.

Our 2024 and 2025 capital plans can be found on Page 36 of the appendix. On growth, we will continue to be disciplined on both organic and inorganic opportunities making investments where we exceed our double-digit unlevered return threshold. Last year, we were thrilled by a large part of the South Texas Project nuclear plant. We'll continue to look for acquisitions to meet our business priorities and return thresholds. Over the next two years, we'll also invest in organic projects that will grow and continue the operations of our invaluable carbon-free assets.

We're making investments at some of our plants to get them ready for future behind the meter demand and (inaudible) remains an opportunity for us, but is immediately dependent on the outcome of the final rules of treasury.

In addition, we happily invested alongside our owners last year, completing our first \$1 billion share repurchase program. Our Board authorized the next \$1 billion program in December, we've already been buying this quarter. We're excited about the opportunities to invest in our business the right returns, but we're also more than happy to keep buying our own stock.

Turning to Slide 27. Let's talk about our free cash flow for the next two years covering 2024 and 2025. Starting on the left, we forecast approximately \$6 billion in free cash flow before growth after accounting for base CapEx and nuclear fuel, which is still a lot of money to deploy.

As I mentioned on the last slide, we have nearly \$900 million in organic investments over the next two years with returns that exceed our double-digit threshold. \$900 million will be returned to our owners and common dividends, reflecting this year's 25% increase and then the projected 10% future growth. We then plan to return another \$1 billion to owners to the share repurchase authorized in December and have already completed \$150 million of that

authorization. That leaves us with approximately \$3.1 billion to \$3.5 billion of unallocated capital over the next two years. This unallocated capital provides us the flexibility to pursue our strategic priorities including M&A and additional organic growth as long as those projects meet our return thresholds.

And as you've seen us do, if those opportunities do not materialize, we will return the capital to our owners. Thank you all for your time today. We're incredibly excited about the opportunities ahead of Constellation and our great growth story. We look forward to another strong year in 2024 and delivering on our financial commitments.

I'll now turn the call back to Joe.

Joseph Dominguez {BIO 16668698 <GO>}

Thanks, Dan. Look, I'm going to close here basically where I started. We've had a fantastic run for the first couple of years of this business. But as we look at the fundamentals of power markets, as we look at growing demand need for sustainability solutions, we think there is a ton of room to run yet. And we think we have very durable policy in the PTC because of the kind of the unique position we're in where both political parties have strongly supported nuclear energy for all of the reasons that we covered earlier in the presentation.

At our core, we have visible base earnings growth of 10% through the decade, backstopped by the PTC and again our assets are the best in the world run by the best people that operate those sorts of plants in the world. And this company can't be replaced. There's simply not enough nuclear out there to replace it. And we all know from having seen Vogtle [ph] what the cost of new nuclear is. And notably, having 25 of these assets and having to just replace two of them at (inaudible) was \$35 billion, should give you some sort of insight in the replacement value of clean energy that is also 100% dependable throughout any sort of weather event.

Our businesses -- our commercial and our generation business are a great marriage. That 24% share of the C&I business gives us the ability to connect our unique capabilities with some of the most sustainable companies in the country, and that just seems to be growing. As we look at the dynamics of energy markets, it's impossible not to conclude that if we're going to continue on the energy transition, that reliability is going to become just as important as sustainability and we're able to do both of those things.

We just think that we're a huge part of the solution for America and our clean, reliable nuclear plants, coupled with our ability to reach customers and help them achieve their sustainability goals, supports our vision as being the leading company in this space. On top of the opportunities that we've talked about, we're going to have 180 million-megawatt hours of carbon-free electricity that we could receive additional compensation for through 24/7 sales behind meter opportunities, hydrogen subject to the final rules or the outcome of litigation, government procurements, of clean energy and just simply capturing prices above the PTC price floor as volatility continues and accelerates in the markets.

All of these opportunities are all on top of what is a wonderful profile for the company of growing a very base and predictable part of our business that comprises a huge chunk of our earnings by 10% per year. And Dan and I have already discussed how that number could be

considerably better. So that's the reason as we talk about capital allocation, that we're happy to buy the shares of this company all day long. Because the road we've traveled for the first two years is nothing compared to the future that we're going to have as a company here at Constellation.

With that, I look forward to answering your questions with the rest of the management team here.

Questions And Answers

Operator

(Operator Instructions) Our first question will come from Steve Fleishman of Wolfe.

Q - Steven Fleishman {BIO 1512318 <GO>}

Yes. Can you hear me okay?

A - Joseph Dominguez {BIO 16668698 <GO>}

Steve, we could hear you great.

Q - Steven Fleishman {BIO 1512318 <GO>}

So I guess first for Joe, just as you're thinking about the attribute values the fleet and the different options, whether it's the 24/7 or the on-site hydrogen, on-site data center, et cetera, just how are those kind of weighing against each other right now in terms of most likely? And then just also kind of the timing of when you're likely to kind of be in a position to start making more of those decisions. And just to clarify, those are all kind of upside to base and enhance the way to think about it?

A - Joseph Dominguez {BIO 16668698 <GO>}

I think so, Steve. I think it will represent itself both as an improvement in base and enhance because when you think about how the PTC pricing elbow works, right, wherever -- assuming your overall price is below that elbow, there's extrinsic value above the elbow. It's effectively the possibility that prices will be higher than the elbow come the time of the delivery year.

So whenever you're getting -- whenever you have a contract value that's in that range, if you're adding to it, for example, PJM capacity payments, if those end up being higher, even if the plant right now is residing in the PTC level, the closer it gets to that elbow, the higher the value of the extrinsic floor, and that gives you enhanced earnings. It also gives you what Dan has talked about the potential for higher margins and better portfolio opportunities as you handle the contracts.

But effectively, what we're thinking is the contracts will be well above the PTC levels, right, to reflect the value of the attributes.

In terms of how we're seeing the opportunities, let me just go from kind of maybe worse the best. I think hydrogen right now, we've stayed in the game on the hydrogen hub in Illinois because DOE has asked us to, and they're covering the cost, pending the outcome of the final rules. If we don't get the right final rule, we'll head into litigation, but we'll suspend further capital deployment or opportunities in hydrogen until we get an outcome from the courts.

In terms of 24/7, we're continuing to see uptake from our customers on those opportunities. They are some of the same customers that appear to us in the data economy world, right? So Microsoft shows up as the first pioneer in 24/7 customer, it's also a potential customer in powering the data economy and growth in that economy. And so I think those two things is kind of similar. There will be customers that obviously are pursuing sustainability solutions that aren't in the data center economy like ComEd and others.

But I think probably materially the biggest piece of this, at least as we see it right now, is going to be in the data economy and selling 24/7 solutions to those companies that are in the data center business or intending to grow in the data center business and trying to do that across multiple jurisdictions so that we could get a template agreement in one place where we agree on pricing and then quickly move to other opportunities with that same customer in other parts. I think when you think about who we are, the spread of our assets, we're probably the only company that could do this at scale that has the megawatts available and do it with geographic diversity that these clients seem to like.

In terms of timing, Steve, we're working all of these issues. There's a huge team at Constellation that is involved in these discussions and sorting them out. They are big deals and they take a long time to materialize. And what I don't want to get into in these calls is predicting when the outcome of those deal discussions will occur. But they want speed to the market and we want speed in terms of getting this started.

So I think the incentives are aligned.

A - Daniel Eggers {BIO 3764121 <GO>}

Steve, just to tie that into the earnings expectations, right, as we sign long-term contracts for the attribute sales data center, what have you. Those long-term contributions would flow into the base earnings given the long-term visibility to go with.

Q - Steven Fleishman {BIO 1512318 <GO>}

One other question, just on the when you kind of came out with this base growth rate, how are you -- how are you -- what are you assuming for kind of use of free cash in that plant?

A - Daniel Eggers {BIO 3764121 <GO>}

Steve, we used a range of expectations, right? We have the \$1 billion buyback on right now. We've got the \$3.1 to \$3.5 of unallocated. We assume that we'll use some of that for growth opportunities and some of that for buyback. But I would say that, that outcome covers a range of outcomes.

So it's not as if it was an all buyback assumption, which would probably be the highest additive contribution to EPS, right? because you get an immediate contribution, whereas the growth investments probably have a higher return, but take a little more time to get into play. So we -- our growth rate is -- encompasses a wide range of capital deployments to make sure we'll meet our commitments.

Operator

Our next question will be coming from David Arcaro of Morgan Stanley.

Q - David Arcaro {BIO 20757284 <GO>}

Thanks for the comprehensive update here. I was wondering on the free cash flow outlook, really solid outlook here for 2024, 2025. As earnings grows, will free cash flow before growth be growing at a similar level over time? Or just wondering if there are other important puts and takes over the guidance period for cash flow?

A - Daniel Eggers {BIO 3764121 <GO>}

I think that's a fair expectation. If you think about setting aside the nuclear PTC and the tax attributes of it, we will work through our tax credits we've accumulated previously. So depending on capital investment and bonus depreciation, things like that, our functional cash tax rate is probably going to be a bit higher in the future than it has been in the past. That could be a little bit of an impediment year-to-year, you can see a different timing on nuclear fuel spend or base CapEx spend, particularly if we think about the work we're doing to extend the useful lives of the assets. But I think it's fair to assume that we should have some good follow-through on free cash flow.

A - Joseph Dominguez {BIO 16668698 <GO>}

David, I just would to supplement Dan's point, I think that the opportunities we're talking about don't come necessarily with more O&M, some of the behind-the-meter opportunities might, but that will be factored in to the contract pricing. But simply selling attributes doesn't add a bit of O&M to our company. So its cash conversion is quite large.

Q - David Arcaro {BIO 20757284 <GO>}

And then let's see, you give a range, that range of \$10 to \$20 per megawatt hour for the attribute payments. Is that the right range that you think about for each of those different clean attribute potential, whether it's hydrogen, whether it's data centers. And I guess what's your confidence in achieving that uplift in terms of the pricing level for those end customer sources.

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes. David, I think we put those in as kind of just benchmarks for you to kind of quickly do the math. We're not selling an attribute for \$10 here. That's just not what we would be interested in over the long term. What we are -- what doesn't make sense to do on this call is kind of reveal our pricing curve for attributes because that's obviously competitively sensitive information.

But we put the \$10 in just an illustration. Could have just as easily been \$20 rate. So.

Operator

Our next question will be coming from Durgesh Chopra of Evercore ISI.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Just wanted to follow up, a quick clarification. Dan, the unallocated capital, the \$3 billion, is that factored into the base, the EPS growth rate? Or is that in the other bucket on top?

A - Daniel Eggers {BIO 3764121 <GO>}

I think you should think about it as some deployment of capital for buybacks and then whether it was used for paying down debt, although we'll manage our balance sheet differently or reinvestment in projects, which would have contractual visibility, which is really how we think about our growth investments by and large. I think you should assume a decent amount of that would show up in base, right? Because your denominator is changing on a share buyback calculation.

It would also help enhance a little bit to be totally honest if your share count is falling, but we use a range of different allocations to get comfortable with both the growth rate in the range we provide and we didn't want to lock ourselves into one version of future capital deployment.

Q - Durgesh Chopra {BIO 20053859 <GO>}

That's helpful. And then maybe any color that you can share on your M&A strategy going forward? Obviously there's a healthy bit of free cash flow here for you to execute on, but just then you laid out the return parameters. But what kind of assets, is it predominantly nuclear? Or could you be looking at other renewable assets, if you could just provide more color there.

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes. Look, I think we talked about the two parts of our business, the commercial business and the nuclear asset basis. I think it's fair to say that M&A activity would be focused on both of those things. And in the case of nuclear, we've kind of long said that young dual unit sites are tight around here. So those that sort of -- anything that's in that fits that description would be something we'd be interested in.

A - Daniel Eggers {BIO 3764121 <GO>}

I'd just add, if you think about -- sorry, if you think about last year, we were successful on SDP would certainly fit that template and other assets where we were not successful because it didn't fit our return profile or our asset mix.

A - Joseph Dominguez {BIO 16668698 <GO>}

But look, it's all at the right price, right? What you're seeing here in terms of the management presentation is that we like the future of this company. We like the future contracting opportunity. We like the future realization of the reliability benefit that we think we can. So stated quite simply, we think there's a lot of value that is still unrealized here.

So as we look at different M&A opportunities, it's going to be judged against buyback in the sense of where is going to be the greatest impact or a return for our investors. And I'm not sure where that's going to be. We have a type of plant that we would be interested in buying. We have commercial businesses that we'd be interested in buying, but those things have to come at the right price. And if we've, I think demonstrated anything very well over the first couple of years is we're going to be really disciplined in how we look at that.

Operator

Our next question will be coming from Agnieszka Storozynski of Seaport.

Q - Agnieszka Storozynski

So just maybe two things. One is, can you tell us how you did against the free cash flow projections from the Analyst Day from '22. Again whenever you think about power, it should be a cash business, right? So I'm just wondering how you track against that guidance range and also what was the main reason why you decided to change from (inaudible) to EBITDA, well from EBITDA to EPS. I understand the nuclear PTCs.

But just like conceptually, what was the reason?

A - Daniel Eggers {BIO 3764121 <GO>}

Angie, this is Dan. On the free cash flow performance, we exceeded our commitments in both years. I think I described we can get you the actual numbers, we follow up, but we did exceed the numbers on the plan for both years. As far as going from EBITDA to EPS, I think a major factor was the nuclear PTC because you're calculating against gross receipts, the PTC value can move within the calendar year. It is an after-tax number.

So how you affect your net income would be consistent as those two balance themselves out from an EBITDA perspective, it added a lot of volatility and there's not an ability to gross up the PTC to a pretax EBITDA equivalent value on the consult of (inaudible) counsel and auditors and all those folks.

I think the other part more significantly, right, is that when we look at our story, right, we're a strong investment-grade company with a modestly levered business. We've got a really compelling growth story as we see it with the PTC growth and the opportunity to redeploy capital. The free cash flow is returned it [ph] to our owners will reinvest in the business, drives a unitized growth story, which we all felt it a lot closer to an EPS driven business in a more mature business than probably what we would have experienced with the volatility and variability of results that a lot of the IPPs have had over time where they didn't have the certainty provided by the PTC in our core commercial business.

So we thought it was a really natural time to make the transition and probably suits us to compare to companies who we think we look a lot more like as we go forward as a company.

Q - Agnieszka Storozynski

And just one other thing. So when I look at your the progression, for example, of O&M expenses and CapEx, right? those numbers seem to be going actually even faster up versus EBITDA projections. So I mean that would imply like -- well, at least the CapEx one would imply lower free cash flow generation of the EBITDA that you're adding? And admittedly, and again there's no question about it.

You guys have been on the forefront of addressing the nuclear fuel cost risk. I obviously appreciate all of the additional purchases, nuclear fuel expense, nuclear fuel CapEx, et cetera. But just again is there a shift in how cash heavy the cash -- the earnings are? or is it just -- again I don't know if you can comment at all.

A - Daniel Eggers {BIO 3764121 <GO>}

Yes. I mean Angie, I think on the O&M front, right? I mean you got to remember that we did buy STP last year, right? So there's a fairly meaningful step-up in our projected O&M for '24 from last year's update because STP is the biggest piece of the increase. In '24, we also just like we saw in '23 we do have IR O&M for performance-based compensation for employees given the extraordinary results we've had in commercial.

As you're aware, we (inaudible) a lot of backlog in '22 and '23, that's going to show up in '24, hence the strong enhanced earnings numbers. We pay at delivery, not at inception. So our O&M is going to be up with extraordinarily higher profits for that pace. I think we're really comfortable with the O&M profile relative to earnings expectations. And if you look at how much the numbers have moved for '24 from where we were a year ago, I think that's pretty clearly validated.

On the CapEx front, I think timing will vary from year-to-year depending on what our workload is for maintenance capital at the plants. When we've done things like the up rates, we've moved some capital forward in order to get that on and get those high-return projects in place. So I think if you look at a long-term CapEx program that's incredibly consistent with where we expected things to be maybe a few more dollars here and there for long-term support of the assets going into the SLRs, but we feel good on that front.

On nuclear fuel, we were, you're correct, well ahead of where the world was heading on the need to procure fuel. We had bought out through '28. That has continued beyond '28 million. We have contracts extending well out into the 30s at this point in time across the fuel chain. So I think that we've managed our fuel exposure very well.

We talked about last year nuclear fuel expense, you're around \$6 a megawatt hour. It might be a smidge over that, but not a whole lot more. So I think we've done a good job controlling where our fuel costs are certainly in an inflationary environment. And I guess the last point on fuels because people ask about it a lot because you can see the spot price move around. I'll just remind you that we don't buy in the spot market, right?

We buy in the term market for all of our products. We are a long-term buyer with a very sophisticated fuels group. So where we're procuring is certainly different than what you're seeing on a very illiquid tape.

Q - Agnieszka Storozynski

And none of your fuel contracts have any indexation to the current price?

A - Daniel Eggers {BIO 3764121 <GO>}

We -- some of them will have colors around them, and I will tell you that all the numbers we're showing you basically have those contracts at (inaudible) value.

Operator

Our next question will be coming from Neil Kalton of Wells Fargo.

Q - Neil Kalton {BIO 6409354 <GO>}

Just a question on the retail power margins. You're showing in 2024 about \$1.75 above the 13-year average is trending down to \$0.50 in 2025. Just curious, is that -- does that reflect the market coming in '25? Is that just where the hedges sit? Just any kind of comment on how we should be thinking about '25 and beyond there?

A - Daniel Eggers {BIO 3764121 <GO>}

I think when you look at our commercial business, right, we tend to sell forward in contract terms, let's call it, 24 months plus or minus, right? We would have sold a lot more of our '24 volumes in '22 and '23 than we would have sold '25 volumes in '22 and '23. So what we have in our numbers reflects really the positive backlog gains, right? We had very good margins on what we've been signing to the point that Martin [ph] sustain at the higher than these long-term average margins you would expect that enhanced value to improve as we sell more contracts, right? So anything that isn't sold at this point in time, we assume reverts back to this long-term average we've seen volatility continue.

We've seen good margins hold up into this year. So I'd say there's probably, in my mind, a bit of opportunity if we can sustain at these market conditions. And the commercial business has just done a tremendous job taking advantage of the market, but also helping our customers, the volatility is disruptive to them. So our ability to sign and provide them long-term certainty to their energy costs is really valuable for them, and it's been a good relationship for sure.

A - Joseph Dominguez {BIO 16668698 <GO>}

Neil, I think it could be pointed out that we're probably a little conservative here in returning back to historical margins as opposed to resetting margins. But there's probably a flavor of conservatism throughout the materials as Dan has covered, and that's just we anticipated you would or you or someone else would raise this question, we just used the historicals for a plug for right now until we see how the market continues to evolve.

Q - Neil Kalton {BIO 6409354 <GO>}

That's what I thought. I just wanted to make sure that was the case. And then in terms of the growth there, how should we think about it? I think it's like 200 terawatt hours is sort of your base. I mean how do you think internally about the growth longer term there meaningful? Or should we think about it as kind of being in that range for the foreseeable future?

A - Joseph Dominguez {BIO 16668698 <GO>}

Well, I think that gets into the question of operates. We've already announced some. We have others that we're looking at. We're looking at some other fairly material opportunities to increase the number of megawatts that we produce and then anything that would happen from an M&A perspective. We're not going to build more nuclear, so that's -- it's really how we optimize the existing fleet, which is already running at a pretty high capacity factor.

We'll look at upgrades M&A opportunities and possibly some unique opportunities that we have to bring megawatts on. So that's -- I think this is a neighborhood we're going to be in for a while.

A - Daniel Eggers {BIO 3764121 <GO>}

Neil, on the retail side of the house, I think that we have been opportunistic in our ability to grow. We've been a consolidator in retail for a long period of time. So I think when things that fit our portfolio, could be added to our volumes. I think the team always challenge themselves on the profitability of the customers and the margin gains that we're looking at, right? So we're going to balance all those pieces as we go forward making sure that it's not just volume driven, but it's profit to be organization-driven.

Operator

That ends our Q&A session today.

I would now like to turn the call to Joe.

A - Joseph Dominguez {BIO 16668698 <GO>}

Well, again it's been a longer-than-usual call.

We had a lot to go through in terms of the evolving marketplace, Constellation strategy and the change in guidance that we're providing.

Appreciate, again all the positive feedback.

We look forward to continuing to deliver on the promises that we made to you. So looking forward to the first quarter call.

And with that I'll end it. And thank you again for your time and attention.

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.

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