Q2 2023 Earnings Call

Company Participants

- Daniel Eggers, Executive Vice President & Chief Financial Officer
- David Dardis, Executive Vice President & General Counsel
- Emily Duncan, Investor Relations
- James McHugh, Executive Vice President & Chief Commercial Officer
- Joseph Dominguez, President, Chief Executive Officer & Director
- Kathleen Barron, Executive Vice President & Chief Strategy Officer

Other Participants

- David Arcaro, Executive Director & Lead Analyst of Utilities, Morgan Stanley
- Paul Zimbardo, Vice President in Equity Research & Research Analyst, BofA Securities
- Shahriar Pourreza, Managing Director & Head of North American Power, Guggenheim Securities, LLC
- Steven Fleishman, Managing Director & Senior Analyst, Wolfe Research, LLC

Presentation

Operator

Thank you for your patience, ladies and gentlemen.

We are experiencing some technical issues there.

We're now restarting the call. Please continue.

Emily Duncan {BIO 19245511 <GO>}

Thank you, Liz.

Thank you, everyone, for your patience this morning with our technical difficulties.

Good morning, everyone.

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'll 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 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 EBITDA 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, the CEO of Constellation.

Joseph Dominguez {BIO 16668698 <GO>}

Thanks, Emily. Good morning, everyone.

Thanks for joining our call. I'm sorry about the delayed start here. I know it's a busy day for many of you, but it's a reminder of the old adage that all very good days are worth waiting for.

I want to begin by thanking the women and men of Constellation for delivering a fantastic second quarter. It builds on the great work they did in the first quarter. For the second quarter, we earned $1.031 billion in adjusted EBITDA.

As a result of the strong year-to-date results and our expectations for the performance to continue, we are raising our 2023 adjusted EBITDA guidance range by $400 million to $3.3 billion to $3.7 billion, and we remain despite this update, bullish for the balance of the year.

What's more, the strong performance of the team is not limited to 2023.

As you can see in the disclosures, it also reflects an increase in our 2024 gross margin update, which has increased by another $150 million on top of the $100 million increase you saw just a quarter ago, and we continue to find opportunity for further improvement.

Our O&M remains on plan with the only material variance being the expected increase in employee compensation and profit sharing that comes with such an extraordinary year.

Of course, Dan will discuss all of the drivers in more detail in his remarks, but the short story here is this. In Constellation, you own the largest and most reliable clean energy fleet in America as well as the best C&I and commercial platform in the business.

We strategically couple these businesses with a strong balance sheet that, in turn, gives us a powerful competitive advantage across all retail and lower channels. It all translates into a unique ability to give our customers the certainty and visibility they want on energy costs and sustainability solutions and ultimately leads to margin expansion and better value for you.

In addition to the strong financial results I just touched upon, we had a great operational quarter, which I'll go through.

We also had some exciting developments since our earnings last earnings call that should give you great confidence in the long-run strength of our company.

First, we announced the acquisition of 44% of the dual unit South Texas Project Nuclear Station from NRG last month. This is an excellent asset. It's one of the youngest and largest in the country. And like our fleet, it has been well maintained. Regulatory approval has been filed with the NRC, and we expect to be able to close by the end of the year.

Second, we announced a deal with Microsoft to provide them with an hourly time match clean energy product. It's the first agreement of its kind, and we think it will lead to many more. I'll cover the importance of that deal in a moment.

Third, we reached an agreement with NYSERDA to share the value of the PTC with New York customers. New York was the first state to adopt a program that recognizes the unique value of clean, carbon-free nuclear energy.

So it makes sense that they are first in receiving the benefits of the IRA. The resolution of this issue is exactly what we plan for.

Fourth, at Constellation, you know that our mission is to accelerate the transition to a clean carbon-free future.

But we think that natural gas is an important bridge fuel, and we have invested in technologies to make natural gas generation cleaner. In May we set an industry record for blending hydrogen with natural gas at our Hillabee generating station to reduce emissions. The test showed that with only minor modifications.

An existing natural gas plant, I think this plant is a little bit over 15 years old. That kind of technology can safely operate on a blend of nearly 40% clean hydrogen and 60% natural gas, nearly doubling the previous blending record for similar generation stations.

As many of you know, EPA's proposed regulations for reducing carbon emissions from gas power plants depends upon clean hydrogen blending, and we just showed that it works. In addition, we have worked on gas generation with carbon capture technologies that have the potential of making natural gas generation truly carbon-free.

We have been investors and collaborators in net power in (technical difficulty) U.S. technology for many years.

We were pleased to see the successful launch of this publicly traded company with our stake presently at over $450 million. These accomplishments and many more are laid out in our second sustainability report that we published last month. It details how Constellation and its customers are leading the fight against the climate crisis. I commend this important report to your reading.

Now before I turn to the quarterly operational updates, let me remind you that we just launched this company. August 2 marked the first 18 months of our business.

I think folks would be hard-pressed to find a better launch, and we appreciate you being on that journey with us.

Let me turn to Slide Six.

We saw strong performance across our generation fleet during the quarter, meeting or exceeding our operational targets, and we have continued to see good performance in July. That's one of the reasons we have such confidence in the updates we're providing you today.

Our nuclear plants had a second quarter capacity factor of 92.4%, (technical difficulty). That's even with five refueling outages during the quarter.

These outages were completed in less than 24 days on average. By the way just for context, that's two weeks less time than the industry average for refuels. Scale matters.

Our power assets have exceeded their plan, delivering a dispatch match of 99.1%, meaning they were available (technical difficulty) every time they were called.

Our Texas fleet continues to meet the challenge of extreme heat this summer, putting needed power on the grid and allowing us to capture additional value from the higher prices that we are seeing.

And lastly, our renewables fleet performed near plan despite the lower wind speed that it seems just about everyone is talking about.

Turning to Slide Seven.

As I mentioned, our commercial business is driving the outperformance this year because of the way that we optimize our positions across both the generation and load portfolios to create additional gross margin.

We saw just that during the quarter. The team also continues to have success in helping our customers meet their sustainability needs.

But this quarter, our team made history of setting a new bar for corporate (technical difficulty).

As I touched upon previously in June, we reached a landmark agreement with Microsoft that combines the environmental attributes of nuclear power with renewable energy to produce a time-match clean energy solution for Microsoft. This agreement enables one of Microsoft's facilities that time match clean energy production and energy use in order to operate on nearly 100% clean power every single hour of the day. Matching clean energy production to the exact moment when a customer uses energy is essential to reaching carbon reduction goals while maintaining electric reliability.

You'll recall that the first generation of clean energy accounting rules as well as state clean energy programs allowed customers to claim that they are reducing emissions even when the credits they're buying are from electricity produced in faraway regions or at a completely different day time or even year. In effect, we were allowing people to take RECS from April and pretend that it was offsetting energy consumption in July or August.

People were buying RECS from Texas and pretending it was deliverable in New England or the Mid-Atlantic to meet sustainability goals. Now to be fair, this approach was a good starting point but leaves a large gap between stated emissions and reduction goals and actual emissions reductions. Unfortunately, it also sends the wrong message.

It told developers to build generation in places where customers are not located and encourage them to produce energy at times customers don't need it. Among other things, that mismatch in time and location has led to the enormous interconnection problems that we're really seeing across the nation and which, in our opinion, will only get worse.

It is a tough problem, but the answer is simple. In order to meet the climate crisis head on and preserve electric reliability, we need clean energy that predictively operates so that output is time-matched to customer demand.

As we see in Europe and elsewhere, clean energy, time and geographic matching is where energy policy and corporate sustainabilities must go. The leading sustainability companies in the nation and the world's governments and NGOs get that. Constellation and Microsoft are leading by example with this landmark agreement. It shows that time matching works, and it shows that nuclear energy in combination with renewable energy can make it all happen.

Basically, nuclear fills the gap when the wind isn't flowing and when the sun doesn't shine.

That produces a solution that cannot be matched by renewables alone. Having Microsoft, one of the world's sustainability leaders, recognizing the value of nuclear as a sustainability solution that will lead to even better environmental outcomes is a very big deal. It paves the way for others to follow.

And this is the way I think about it. 2022 will always be remembered as the year in which the federal government finally began to put nuclear energy in the high echelon of premium, clean energy products that must be supported by policy as a national priority. I believe that 2023 will go down as the year in which large customers began to think the same way and recognize the reality that including nuclear energy and sustainability solutions leads to even better outcomes.

My compliments to the Microsoft team and their vision. We're glad to have them both as a partner and as a customer.

I'll now turn it over to Dan for a more detailed update on the financial outlook. Dan?

Daniel Eggers {BIO 3764121 <GO>}

Thank you, Joe. Good morning, everyone.

Beginning on Slide Eight.

As Joe mentioned, we continue to see strong performance from the business that is driving our earnings results and expectations for the year.

We earned $1.031 billion in adjusted EBITDA in the second quarter, which compares to $603 million last year.

We realized higher prices on our generation output compared to 2022, and the commercial team had another exceptional quarter. They captured significant value from higher margins, successful load auction wins and through optimization of the portfolio as volatility in the market persisted through the second quarter. The volatility creates opportunities to help our customers who are looking for certainty in their costs, and we can provide where others cannot, in part due to our strong investment-grade balance sheet.

Volatility also leads to higher unit margins as risk is more appropriately priced in and we can optimize our positions across our load serving and generation businesses, which creates additional value. This performance flowed through our quarterly results and also improved our expectations for the remainder of the year, which I will discuss in a few minutes.

In addition to the strong performance of our team this quarter, we recognized $218 million of EBITDA from the Illinois ZEC program for the full 2023-2024 planning year covering June of this year through May of next year.

As some of you may recall from when the legislation was passed, the Illinois ZEC program is subject to an overall cost cap as one of its consumer protection features.

Over the course of the program to date, that cost cap has been reached in each planning year.

Thus, we had decks that were produced but we are not compensated for (technical difficulty) allows for this revenue to be banked and compensated in a subsequent planning year when the cost cap is not reached. For the 2023-2024 planning year, the ZEC price is $0.30 per megawatt hour.

So for the first time, the cost cap will not be reached. Therefore, some of those uncompensated ZECs from prior years will be recovered in this cycle up to the level of the overall cost cap.

Our gross margin tables for 2023 and 2024 have already included the use of banked ZECs on a ratable basis over the planning year. However accounting rules require us to instead recognize the full planning years banked revenues at the beginning of the planning year, which caused us to recognize the $218 million in June, and therefore, pulling forward some revenues into full year 2023 from 2024. The change in timing is now reflected in our updated gross margin tables for both 2023 and 2024.

To put all of this in context, Clinton and Quad Cities have received an average realized price for energy, capacity and ZECs of $40 to $45 per megawatt hour during the first six years of the program. Looking forward, we forecast energy capacity in ZEC to be at least at PTC levels over the remaining life of the ZEC program.

As a refresher, Slide 19 in the appendix provides more details on the mechanics of the Illinois ZEC program.

Turning to Slide Nine and our gross margin outlook. We've increased our gross margin forecast for 2023 and 2024, incorporating the strong execution and performance Joe and I have discussed. For 2023, total gross margin increased by $350 million. The increase primarily reflects our performance in our commercial business, strong margins, higher customer win rates and opportunities to create (technical difficulty) sustained volatility in commodity markets.

As a result, we executed $400 million of our power new business target. This benefit is seen on the table in the mark-to-market of hedges line as executed business moves out of the power to go line. In addition, we raised our new business target by $300 million based on our expectations to continue to create value during the remainder of the year.

Our contracted revenue line also increased by about $100 million due to the Illinois ZEC timing I just covered. In 2024, our total gross margin, including PTCs is $9.2 billion, up $150 million from our last update. Lower prices were offset by an increase in expected nuclear PTCs from plants without existing ZEC programs, reinforcing the downside protection the PTC provides against declining power prices.

Consistent with what we are seeing in 2023, the favorable margin trends with our C&I customers and load auctions are showing up in business being contracted into 2024. This favorability is supporting the $150 million increase in our overall 2024 gross margin outlook.

Our disclosures currently do not reflect the STP acquisition. Following our typical practice, we will include them once we have closed the transaction and expect STP will be included in our fourth quarter disclosures.

Moving to Slide 10.

We are raising our full year EBITDA guidance outlook by $400 million to a $3.5 billion bid point to a new range of $3.3 billion to $3.7 billion. This upward revision reflects the significant increase to our gross margin forecast since the beginning of the year, which was slightly offset by an increase to our O&M driven by increased compensation for our employees due to the strong financial performance of the company this year.

Turning to financing and liquidity update on Slide 11.

Our strong balance sheet is critical to our business model, allowing us to participate in volatile markets in ways that many others cannot. It also supports our capital allocation strategy, providing us with options from organic and inorganic growth to capital return.

Keeping in step with this advantage, Moody's upgraded its outlook from stable to positive during the quarter, referencing our balance sheet strength and recognition of the commodity price downside protection provided by the PTC.

We want to thank our colleagues and Moody's for their thoughtfulness and we look forward to continued productive conversations.

Our credit metrics remain on target and well above our downgrade thresholds.

As we discussed during the STP announcement call, we plan to issue debt later this year to fund the transaction, which we expect to close by year-end.

We continue to execute on our commitment to return capital to our shareholders and have now completed half of the $1 billion buyback program authorized by our Board in February.

We purchased an additional three million shares through the end of the second quarter, including through June.

We continue to see our stock as attractive at these levels, and we'll be opportunistic for the remainder of the authorized program.

We still have an additional $1.2 billion of unallocated capital in 2023 and 2024 to create additional shareholder value through growth investments, M&A or additional return of capital to our owners.

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

Joseph Dominguez {BIO 16668698 <GO>}

Thanks, Dan. That's a good summary. Folks, this management team remains focused on creating value for our shareholders.

Our business is unique, and we continue to have many opportunities in front of us to create incremental value for our investors.

As you know, we're the best operator of nuclear plants and the largest producer of carbon-free electricity in the United States.

Our commercial business serves nearly 25% of the competitive C&I market in the United States and is helping our customers, like Microsoft, meet their sustainability through products like our hourly matching product.

Our businesses are essential to addressing the climate crisis and our assets are durable. The Inflation Reduction Act provides unique opportunities for Constellation and its investors.

We believe we will be able to use nuclear energy to produce hydrogen.

We will be able to relicense our nuclear fleet to run at least 80 years without needing to replace it.

The IRA provides, at long last, the long-term commitment that nuclear energy is part of the national security of this great nation.

And we have many ways to grow and bring more value to our shareholders. Against the baseline earnings level supported by the PTC floor over the length of the PTC, we will benefit from floor price inflation. If you're a believer that 2% inflation for the U.S. is going to be hard to reach, then you should like this company a great deal.

We generate strong free cash flow that can be used to fund robust organic growth at double-digit unlevered returns, disciplined M&A like the STP deal, fund a growing dividend and buy back stock. We're doing all those things already.

We've announced a $1.5 billion growth in up (technical difficulty), hydrogen and wind repowering, doubled the per share dividend and have bought back approximately $500 million of our own stock as part of the authorized $1 billion buyback.

And as Dan mentioned, there's more we can do.

We have $1.2 billion of unallocated capital in '23 and '24 that can be used to further enhance our earnings growth in the ways that I've outlined.

Constellation is in unique form that cannot be matched anywhere in the marketplace.

Our large clean carbon-free nuclear fleet paired with our customer-facing business provides us with opportunities to grow and create value for our shareholders.

That's what we're focused on.

Now Dan and I and the rest of the management team, look forward to your questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Steve Fleishman with Wolfe Research.

Q - Steven Fleishman {BIO 1512318 <GO>}

I guess a couple of questions. Just on the credit metric slide, the numbers are kind of the same as the last quarter. Are you not yet including the higher assumed guidance for '23 in there?

A - Daniel Eggers {BIO 3764121 <GO>}

Correct. Yes, Steve. The way we've approached that slide is we refresh it once a year when we give our full plan for numbers.

So the metrics there, I'll tell you that given the strength in earnings this year, that would certainly favorable before we put STP and time match.

So we do not include updates to our numbers in credit metrics or the cash available as we go to the year's favorability we've seen in '23 and '24 would be additive to the numbers you talked about.

Q - Steven Fleishman {BIO 1512318 <GO>}

Okay.

Then, I guess secondly, maybe just a little more kind of color or thought process on the sustainability of this improved environment for wholesale retail margins. You kind of talked about what's driving it. A little more color of what's driving it and just how you're thinking about the sustainability of it beyond?

I know some of it's into '24, but even beyond that.

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes, sure, Steve. I mean first of all, think about the duration of our products that we typically sell on the market or when your products were selling for 30 months or more in the case of load following options.

So this is -- the deals we're entering into are going to persist for a while.

I think that the margin expansion is really -- and I'm going to invite Jim McHugh, the head of our commercial group, to chime in here, is a reflection of the volatility we've seen in the market.

In turn, I think that volatility is a reflection of the changing composition of the generation fleet and kind of saw that this -- this summer in Texas, where you have whole home prices and all of a sudden, you have less wind or renewable output and prices spiked asymmetrically really high levels and makes it really difficult for companies that don't have our balance sheet and our generation capabilities to handle, frankly, the impact -- the financial impact of that volatility and cover themselves. That's a new phenomenon.

I think that's going to do nothing but increase.

Honestly, Steve, I think reserve margins are about as thick as they're going to be in these markets and as you see fossil generation being replaced with renewable generation. The underlying markets are going to be very volatile and it's going to take a special kind of company with a special balance sheet to cover that. I think the sustainability solutions also allow us to enter into longer deals with customers that really want that sort of product support.

So look, I think this is durable. I think margins will always increase and contract over time.

But what we're seeing here is what I think is going to be a durable long-term trend. And Jim, why don't you get into some of the specifics of what you're seeing.

A - James McHugh {BIO 20604624 <GO>}

Sure. Yes. Thanks, Joe.

Steve, I think adding some color on the duration of the contracts, if you think about in addition to the contract as we sign is the duration of the customer.

We tend to hold customers for at least five years when once we get them signed up when you think about retention.

So that's another sign towards durability.

I think the macro trends on volatility with add load and electrification hit and low growth continues or starts to really pick up. Combining with the supply side changes that Joe talked about on the (technical difficulty) and other things on the generation side, volatility in multiple of these markets, we think is going to continue in the next several year window, PJM, Texas, New England, New York.

So I think that optimization activity is durable also.

Then to me, the last thing I would add is the year, as you talked about '23 and we've talked about '24, we definitely see some of this margin also now going into 2025 as we sign up these customers and the activity we're seeing in the market.

So we expect that to be there over the next few years on the gross margin optimization also.

Then the macro trend of sustainability products is something that you add to that as it scales in the future. We've talked about our core product quite a bit with you all. The amount of volumes we're seeing there and the margins have been continuing to grow. And now we have the possibility with hourly CFE, carbon-free energy matching to look at the next wave of sustainability products to get our customers signed up for longer terms and for decent margins.

So we're feeling good about the sustainability environment, and it really does start with the balance sheet.

Our competitiveness is there. I think others in this interest rate environment with the collateral costs and the borrowing costs hit quite do what we can do.

So I think it's -- we're feeling good about it.

Q - Steven Fleishman {BIO 1512318 <GO>}

Great. I have one more question. That was very helpful. Just -- can you maybe update us on your thoughts on the green hydrogen IRA credit treatment?

And I guess aligned with that, how are you thinking about choosing between producing green hydrogen from nuclear or these 24/7 contracts like this?

Just can you maybe go through your thought process on how you're prioritizing among those?

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes. Let me kind of go at it a little backwards and cover your second question first.

So when you think about the time match product we just sold to Microsoft. It's the same sort of product that is going to enable hydrogen production at a customer location, right?

So if you have a refinery, a processing center, if you're distributing hydrogen, and you don't want to make it, for example, behind the fence line of a nuclear plant transported, you can cite the electrolyzer directly at the customer's location.

Then we would sell that customer, time-matched clean energy that would allow that customer to get the tax credit, and we would earn some of the value of that tax credit and the transaction in these longer-term deals that Jim is talking about.

So it can be a separate product. It can be sold. The 24/7 product can be sold to a Microsoft like company for sustainability reasons, but it could also be sold to enable hydrogen production at the customer location, so-called grid connected hydrogen.

In terms of how we see the current discussions going on in treasury, let me just start with this, Steve. The language of the statute is clear that existing nuclear plants are allowed to earn a tax credit for producing hydrogen. There's no other way to read it.

And frankly, when Congress intends something like, for example, only new resources would be allowed to earn the tax credit, Congress is well aware of how to write that and explain that in the statute. I think Senators (technical difficulty), Senator Carbo just came out very publicly this week are exactly right that there was never an agreement on additionality, let alone even a discussion of additionality when this bill was passed.

So to the extent from a regulatory standpoint, people intend to impose that requirement, we believe it will be defeated in court.

But I don't think we're going to get there. We're having very productive conversations with the administration about means of addressing this from a regulatory standpoint so that existing nuclear can begin to be used to make hydrogen and relicensed nuclear plants would effectively count as new. I think those conversations are productive, not only because Democratic allies in Congress are saying what they're saying about this never came up in the process, but also the fact that think about it, with nuclear, the other tiers of the strategy they're trying to achieve, time match, geographic matching already are there.

We could do that immediately tomorrow.

We could start having these contracts and electrolyte is running on time match regionally matched electricity.

And we're going to have to do this because for things like the EPA regulations that I mentioned earlier, that, say for example, that existing natural gas should blend with hydrogen, you'll never ever create that much hydrogen by the deadlines that EPA is seeking unless you allow these existing resources to begin making hydrogen with megawatts that, frankly, are in surplus at different times of the year.

So look, I think we've made all of those arguments.

We continue those discussions. I don't want to get into the nitty gritty on these calls of the exact content of those discussions because I think it will be counterproductive.

But I feel confident.

If at the end of the day those discussions don't go the way we expect, then we'll use the courts to achieve alignment.

I'm quite confident that we will be successful.

Operator

Our next question comes from the line of Shar Pourreza with Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Joe, I just wanted to follow up on Steve's question and just drill down a little bit on the ongoing gross margin outperformance we've seen so far this year, and in particular, on the quarter. The retail margin expansion is pretty straightforward. You guys have talked about it a lot this morning.

But where have you seen the wholesale outperformance?

It seems like you were very hedged as of last quarter. Is it primarily the ERCOT CCGTs?

Just some more color there, if you can.

A - Joseph Dominguez {BIO 16668698 <GO>}

Sure. Shar, let me give it over to Jim.

A - James McHugh {BIO 20604624 <GO>}

Sure. Yes. I would start with wholesale load customers, too. I know you've had a focus on our retail customer base.

But on the wholesale side, we've also had decent really good strong performance in wholesale loads. Whether that be load auctions to utility companies, but also structured origination contracts with other large entities and municipals and co-ops.

So we've seen the ability to go sign up customers for load contracts on the wholesale side, too.

So that's part of the wholesale story.

The second one is on the optimization activity, to your point, has really been around kind of this volatility assessment.

And just the decisions we need to make every hour, every day every month, every week, as you see the price movements and load and weather movements where we can kind of optimize the portfolio by setting up the imbalances in the right way of where our generation is and where our load delivered contracts are.

So that's been also a significant driver of it.

So that is the one we're saying we expect to continue because we've had this track record when you see these markets moving around and being volatile.

This is where we've seen this before. This isn't kind of the first time we've seen wholesale success in volatile markets.

We just expect that these markets are going to continue to exhibit this behavior based on just the changing stack dynamics.

So I think it's customer business and optimization activity, both that are driving that.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Fantastic. Helpful.

Then, Joe, just on STP, I realize you guys are somewhat removed from the legal situation between their current owners, and I appreciate the comments in the prepareds.

But any additional color you could provide on your timing expectation right now and how we should be thinking about the potential redeployment of that $1.75 billion if, for like whatever reason, this becomes a more serious roadblock?

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes, Shar. I'm not even to the second one because, frankly, I think the claims are meritless and will be discussed by a court.

To the extent we find any extra capital in our plan, we'll use it for the things we've talked about, double-digit growth opportunities.

If they don't happen, and we don't have any inorganic growth opportunities at that time, we're going to look to deploy value back to our owners.

And Dan and I have not been shy about saying we very much like the value of the company and buying back shares at these price levels. I said it on the first quarter call, when the price was in the 70s that we would buy all day long at those prices, and I feel the same way today.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Perfect.

Then just lastly for me, I know you mentioned in your prepared remarks, Joe, your dialogue with the New York on net ZECs. Can we just expand on the mechanics of what that will look like going forward?

Is there actually uplift from the transition to the PTC?

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes. Sure. Shar, let me give -- let me introduce you to Dave Dardis, our General Counsel, who negotiated the provisions of that agreement and is best to answer the details question.

A - David Dardis {BIO 19484457 <GO>}

Yes. Thank you. Well first, obviously New York was the first state to recognize the value of nuclear and what it did for its customers, both from a sustainability perspective as well as managing prices.

So that program was historic.

We've been a strong partner of the state all along under that program.

New York also was able to negotiate a provision in the PTC, which basically ignores the ZEC payments for purposes of calculating the PTC.

In working with New York, what we've agreed to under the amendment we made under a change in law provision of our existing contract is that the ZEC program will be reduced dollar for dollar for every dollar of PTC we would otherwise be eligible for them.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Perfect. I think that was helpful, guys. Congrats on this execution. Appreciate it.

Operator

Our next question comes from the line of David Arcaro with Morgan Stanley.

Q - David Arcaro {BIO 20757284 <GO>}

Joe, what have your conversations been like at the policy level around on-shoring nuclear fuel production?

Just curious where you see that going and what's the latest there?

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes. I think there's some bits of good developments.

So I'm going to turn it over to Kathleen Barron here who heads strategy and legal affairs for us to give an update on that.

A - Kathleen Barron {BIO 19492153 <GO>}

Yes.

We have had some good developments on that front.

As you know, we have been encouraging Congress to allocate funding to improve domestic enrichment and conversion services in the U.S.

In July, there was a vote taken in the Senate to include the Nuclear Fuel Security Act into the NDAA as sort of a must-pass bill for this year to fund the military.

So a little bit outside the scope of that topic.

But given the importance of this issue, that provision was added in a vote of 96 to three, which does include $3.5 billion in funding to go to the DOE, again to spur new conversion and enrichment capacity in the U.S.

That was one of several provisions that were positive towards nuclear that were added into the bill. There was an extension of Price Anderson by 20 years, streamlining of NRC review of new reactors and the additional funding for domestic sources of fuel.

So it may be one of the last remaining issues that's bipartisan in the Senate, but continued support for the nuclear industry is certainly something that was behind those three provisions, and we think is a good signal for how Congress and federal policymakers are thinking about our business.

Q - David Arcaro {BIO 20757284 <GO>}

Got it. That's helpful.

Then just looking back to what your expectations were around nuclear fuel cost heading into this year, how has that been tracking in terms of market pricing of nuclear fuel and your ability to lock that in going forward?

Then a kind of similar topic just on O&M trends this year, how is your overall O&M expense been following against your earlier guidance?

A - Daniel Eggers {BIO 3764121 <GO>}

Dave, this is Dan.

On the nuclear fuel side, we laid out on the fourth quarter earnings call that we were procuring fuel to make sure that even if we were to not have our rush deliveries executed on, we'd have enough fuel to meet all of our needs through 2028. I can tell you the actions have continued to deliver on schedules. We're in a better position than we were coming into the year. We're very happy about that. I feel very confident in all of our deliveries.

As we look out, we'll continue to execute on that plan.

We also shared with you that having up to 2028, our nuclear cost will still be below $6 a megawatt an hour through our income statement, and that remains on track.

So that's all in good shape.

But as far as O&M is concerned, we are on plan, I'd say with our core O&M that Joe hit on in his prepared remarks, you'll see a bit of an increase in our disclosures. That has to do with profit sharing and other incentives associated with the significant outperformance we're having in 2023. When you look at 2024 in that same table, you see that will be consistent with year-end.

So we're on course and comfortable with our projections.

Operator

Our next question comes from the line of Paul Zimbardo with Bank of America.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Just to follow up on Shar's question briefly. In terms of the New York agreement with the ZEC and the PT center play how would that change the cash tax rate, whether for 2024 or beyond?

Just I think that there's some savings as you switch from pretax to post tax there.

A - Joseph Dominguez {BIO 16668698 <GO>}

Paul, I think we're probably not going to be in a place to give you specifics on cash tax rate. There's a lot of things that are going to move period-to-period with CapEx, bonus depreciation, timing of the cash taxes that Exelon is still owed back, they still owe to us at this point in time. There's a lot of pieces that will go into it as well as the DTC timing.

So I probably wouldn't isolate it's one particular issue. I think the forecasts we have are pretty solid at this point in time.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay.

But at least just generically, if you kind of -- the New York agreement and if you do things in other states, is it right to think that should be cash tax savings prospectively?

A - Joseph Dominguez {BIO 16668698 <GO>}

I think there could be an opportunity when we look at our cash tax bill over time to get more effective, and this could be a piece of it.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Great.

Then quickly going back to the Microsoft deal, very interesting to see that one. The nuclear energy, whether it's the energy certificates, the CFCs, are those coming from Constellation nuclear plants or different nuclear plants to serve Microsoft?

Just curious there.

A - James McHugh {BIO 20604624 <GO>}

Yes. Paul, it's Jim, they are coming from Constellation nuclear plants.

The hourly matching and the geography are both pieces of the nuclear plants that will source the hours by which Microsoft will buy nuclear power from us.

Operator

That concludes today's question-and-answer session.

I'd like to turn the call back to Joe Dominguez for closing remarks.

A - Joseph Dominguez {BIO 16668698 <GO>}

Well thanks again everybody, for joining the call. We'll end the call now and get back to work.

Have a great day.

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.