Q4 2022 Earnings Call

Company Participants

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

Other Participants

- David Arcaro, Morgan Stanley
- James Thalacker, BMO Capital Markets
- Paul Zimbardo, Bank of America Merrill Lynch
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Constellation Energy Corporation Fourth Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. Later, we conduct a question-and-answer session and instructions will follow at that time. As a reminder, this call may be recorded.

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

Emily Duncan {BIO 19245511 <GO>}

Thank you, Justin. Good morning, everyone, and thank you for joining the Constellation Energy Corporation fourth 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 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 on the Investor Relations section of Constellation's website.

The earnings release 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 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 the call over to the CEO of Constellation, Joe Dominguez.

Joseph Dominguez {BIO 16668698 <GO>}

Thanks, Emily. Good morning, everyone. Thanks for joining our fourth quarter earnings call. We've been a standalone company for a year now, and what a year it's been. We really appreciate the confidence our owners have shown in the company and its future. I'm going to start on Page 5 of the deck with language that ought to look pretty familiar to you.

A year ago, we laid out our strategy for the company and made commitments to you focused on creating value, namely that we create an enduring business with the unique ability to tackle the climate crisis, that we'd operate a premier and transformational ESG company that sets a high bar and leads the way for others and we'd protect our balance sheet and deliver exceptional value to our shareholders.

Thanks to the hard working women and men that run our power plants and serve our customers, along with the corporate teams that support them, we're well on the way to delivering on these commitments. This year, we produced 180 terawatt hours of carbon-free clean electricity from nuclear, wind, solar and hydro, which we estimate to be about 11% of all carbon-free energy produced in the U.S. in 2022.

On the customer front, retail customers ranked Constellation as the number one retail energy supplier. We continue to offer strong pricing and innovative solutions like CORe and carbon-free energy matching, what we call 24/7, that are meeting customers where they are today and anticipating where they're going to be a few years down the road.

Following a bumpy 2021 marked by challenges in Texas during superstorm Uri, our power business, which includes all of our hydro, renewables and natural gas plants has bounced back and arguably has had its finest year ever. The investments we made in the Texas fleet worked. Our clean nuclear energy centers continue a string of excellent years. Once again, our nuclear performance led the industry. And to put this in context and give you perspective, our capacity factors have been the best in the industry for over a decade.

Now that track record ought to give you great confidence in our ability to sustain performance. But there's a much bigger meaning to having the largest, most reliable and most resilient clean energy fleet in America. It means when the chips are down and the grid is facing a crisis moment, like PJM faced during winter storm Elliott, just the latest example of these harsh storms, Constellation's plans are the difference between keeping the lights on or having a Christmas without heat and light for millions. That's dramatic but it's also correct, and it's just that simple. And storm after storm demonstrates the same thing.

I know this morning, you likely read the news in our release about the financial benefits we'll receive in PJM capacity bonus payments, payments that we earned during Elliott. And we'll talk about the PJM a little bit more this morning. But it's part of a much bigger story in energy and its part of the value thesis for this company.

In 2022 at long last, clean nuclear energy finally got appropriate credit for the environmental value, the E, if you will, in ESG. That drove the IRA and it drives interest in our stock. But candidly, however, our view is that clean nuclear energy continues to remain undervalued from both a policy and ESG perspective.

Because it's not just the E part of the ESG story that makes our assets important, it's the S, too. And what I'm talking about here is the enormous societal benefit of having affordable clean energy, together with high levels of reliability and resilience. It's what makes our assets among the most important of any class of energy assets in America, and it's what you will own here at Constellation.

In this regard, I commend to you, you're reading Constellation Sustainability Report, which explains how clean energy pieces fit together and how Constellation's customer-facing business is helping C&I customers to develop and expand their sustainability plans by providing greenhouse gas emissions reports and clean energy products.

As you know, providing highly reliable clean energy to power the grid is just the beginning of the future we see for the company. The IRA unlocked many opportunities. It gives us unique opportunities to grow by upgrading our existing plans and earning an enhanced PTC with those incremental megawatts to grow by investing in hydrogen and to grow by extending the lives of our assets to 80 years and increase the number of megawatts, our fleet producers. These are the opportunities and investments you will see today -- in today's presentation.

Finally, we talked at Analyst Day about giving back to society. In 2022, we walked the walk. One of the best ways to give back is to create family-sustaining job opportunities for people and communities that need them. That's why I'm happy to report that this year, we hired 2,000 new people across all of our businesses that will earn good wages and benefits and bring that value back to their communities.

Earlier this month, we announced a historic pledge with the North American Building Trades Union to increased diversity in the graft jobs that are in the backbone of our company and the backbone of this nation. They're essential to the clean energy future. Our spending with diverse businesses increased by $200 million. Our people showed their heart and their passion and their generosity by volunteering 80,000 hours to their communities, and they gave along with the company $12.5 million in charitable contributions.

Now all of this was done as we executed the financial commitments that we're here to talk about this morning. We achieved 2022 EBITDA of $2.667 billion, taking the top of our guidance range. We paid down $2.5 billion of debt and generated robust free cash flow to support our strong balance sheet, a strength that was recognized by the S&P and their upgrade and in their continuing positive outlook for our business.

We distributed $185 million in dividends to shareholders and we delivered total value return of 75% versus negative 14% for the rest of the S&P 500. It was a good year. And as promised, we're meeting our commitment to you to provide an update on capital allocation. So let's flip to Slide 6, and I'll walk you through it.

At Analyst Day, we laid out our capital allocation philosophy. We've maintained a strong investment-grade credit rating. You saw we enhanced that this year. We provide annual dividends growing at 10%. We grow the business organically and inorganically where returns exceed a double-digit unlevered threshold. And where we don't have those opportunities or they don't meet the thresholds, we're going to return value to you, our owners.

Now over the course of the year, we have significant developments. The IRA was enacted, it opened the door to the growth opportunities that we discussed in nuclear and hydrogen and will provide a floor of support for our business. And the whole geopolitical and energy world got turned upside down due to the war in Ukraine with long-term effects.

Given these developments, we made a number of decisions to support long-term value creation. We have secured nuclear fuel through 2028, which will allow us to withstand any future Russian supply disruption. We're investing in our nuclear fleet so that it could provide clean energy on the grid for at least 80 years. And we've begun implementing a plan to upgrade plants to achieve more output with no incremental O&M.

Our balance sheet and credit metrics remain strong and continue to be the backbone of our financial policies and they provide an enormous competitive advantage to us. We will double the share of dividend starting with the March '23 payment and we'll then target 10% growth beyond. We will continue to invest in our assets, which will supply the grid with clean energy from our nuclear fleet for decades and help decarbonize America.

I said a moment ago that we have the best assets and best operations. Our mostly dual unit fleet cannot be matched by any other asset class in America. We will remain disciplined in our evaluation of M&A opportunities, which includes making decisions informed by our own assets and how they compare it to others. We've explained how we look at value and our strong bias to purchasing well-maintained and well-supported multi-unit sites.

At this moment in time, we haven't found an actionable opportunity, but we continue to believe in the consolidation of the industry and we will continue to be patient and disciplined as we explore every one of those opportunities. With that lens, we and the Board believe it is more valuable in the organic opportunities we have at hand as well -- that there is more value, excuse me, and the organic opportunities we have at hand as well as in our company's own shares.

Accordingly, we're going to invest $1.5 billion in organic growth that meets our double-digit unlevered return threshold, including uprates at Byron and Braidwood, the first we've authorized, investments in 300 megawatts of wind repowering and refurbishment and we've allotted $900 million in capital to begin to satisfy the growing demand for clean hydrogen in our regions. Now Dan in his remarks is going to go into detail on those investment opportunities.

In addition, our Board authorized $1 billion in share repurchases, a direct investment reflecting our belief in the strength and value of our company. And even with these investments and the enhanced shareholder return vehicles we've announced today, we still will have approximately $2 billion in additional capital to be allocated in '23 and '24. This will allow us to pursue additional organic growth opportunities that meet our return thresholds, provide strategic flexibility for M&A. And to the extent that these opportunities do not materialize or if they don't materialize in this time frame, we'll look at opportunities to return the value to you.

Now turning to Slide 7, I already touched on this. I mentioned at the top of our call that our power generation business had an excellent year, tying our best ever dispatch match, meaning our ability to respond and operate the plants when grid operators order us to do so. Our nuclear fleet continues to lead the industry. The 94.8% capacity factor makes it the seventh year in a row with a capacity factor over 94%, the best in the industry, as I said, for over a decade. Our 11 refueling outages averaged an industry-leading 21 days, matching our fleet record.

Turning to the customer business on Slide 8. Our team had an exceptional year and was able to create significant value managing the portfolio through a very volatile year. We had strong and effective portfolio management success and load options. All whole, we served 208 terawatt hours of wholesale and retail load, and we continue to see strong customer renewables and new customer wins in both our power and natural gas business. And we had our best year ever in the CORe product. As you know, during these calls, I often update you on deals we've executed. But to put that in perspective, we've executed six deals for 12 customers, delivering 1.65 terawatt hours of renewable energy annually and creating strong margins for Constellation.

Turning to Slide 9. The clean energy center strategy for the company is the key to accelerating the transition to a carbon-free future for America. In 2022, we made strides towards our corporate purpose of accelerating this future. We announced our intent to seek license renewals at Clinton and Dresden, with Dresden being our next step in bringing the entire fleet to 80-year lives.

We're making hydrogen today at Nine Mile and using it as a test bed for the future growth opportunities that I mentioned before, and we're working with others to secure hydrogen hub DOE funding in many regions. And finally, we're exploring through a DOE grant the ability to use our cooling towers to take carbon out of the air, a technology that could result in clean energy centers having negative carbon emissions. 2022 was a great year to show the potential of these clean energy centers. 2023 is the year that we will begin to put those plans in action.

Now turning to Slide 10. As I mentioned before, PJM went through a great emergency in December. And it was the latest evidence that time and time again, always on nuclear's there when other resources fail. It was true back in the '14 polar vortex, when 22% of PJM capacity failed, with 81% of it being either coal or natural gas and nearly 1/4 of the wind not showing up either.

Nuclear saved the day with 96% of the nuclear units operating and preventing a catastrophe. Reforms were made, as you recall, and PJM customers have paid about $58 billion in capacity payments since the rules were changed, all in an effort to avert the crisis that occurred during the polar vortex. But disappointingly, we saw almost the same facts leading to PJM great emergencies during the winter holidays, once again, nearly a 1/4 of PJM capacity failed with 90% of it being fossil.

Folks, we know that renewable is intermittent and it's difficult to plan a future around. But the other truth of it is that fossil assets are not performing during these severe storms. That forced PJM to issue emergency conservation orders, which were followed by alerts from governors and utilities across PJM. 38% of the natural gas plants did not operate when needed. In contrast, Constellation's nuclear plants ran at a perfect 100%. Let there be no doubt that clean nuclear energy saved Christmas this year.

But the point I want to leave you with is this. We're going to learn as a nation and a world that dispatchable clean generation is the most valuable thing in energy. We kind of know it already. That's why we're investing so much in things like battery and hydrogen and other forms of energy storage, all things that aim to pair renewables and provide more predictable and resilient clean energy. But you see, we already do that. Clean, reliable and resilient energy is what our fleet does every single day and better than anyone else in the world. And that's what you own when you own constellation.

Now I'm going to turn it over to Dan for the financial outlook.

Daniel L. Eggers {BIO 3764121 <GO>}

Thank you, Joe, and good morning, everyone. We have a lot of cover today from a finance perspective. We're excited to share our capital allocation plan, which we are confident will create value for our business, our customers and our owners. I'm going to build on Joe's comments by providing more details around our growth projects and cash flows. I will also give an update to our financial outlook as we roll forward our disclosures. But I'll start with our 2022 financial performance.

We had a very strong first year financially, earning $2.66 billion in adjusted EBITDA, which exceeded our narrow guidance range of $2.45 billion to $2.65 billion. Our commercial organization had an exceptional year in managing the portfolio, creating opportunities around our fleet and load in a volatile market. Our nuclear fleet performed extremely well during winter storm Elliott, as Joe discussed earlier, and we anticipate being one of the primary recipients of bonus payments.

The strong performance from the business was able to offset untimely generation outages, margin shaping and cost pressures we discussed in the third quarter call. The entire leadership team is very proud of how Constellation performed in its first year, both financially and operationally, and I'd like to echo Joe's appreciation to the entire organization for a job well done. We're also introducing 2023 EBITDA guidance of $2.9 billion to $3.3 billion with a midpoint of $3.1 billion, which is up over $500 million from last year's midpoint. I'm going to use the following slide to talk to the key inputs to EBITDA and then free cash flow.

Turning to Slide 12. I wanted to talk about the nuclear PTC included in the IRA, which we believe is truly transformational for our company. It provides downside commodity risk protection backed by the U.S. government with unlimited upside to higher commodity prices. It supports unique growth opportunities in clean hydrogen and upgrades, it extends the time horizon of our fleet to 80 years and include structural inflation risk protection. Mechanically, the nuclear PTC is designed to provide downside support in the declining price environment, phasing up and down when a plants' market revenues are between $25 and $43.75 per megawatt hour with maximum support of $15 a megawatt hour.

This chart shows the illustrative payoff dynamics in 2024. The blue shaded box shows the revenue levels or the PTC support would be available up to the maximum $15 credit when revenues are at $25 and basing down $0.80 on the dollar until you reach $43.75 per megawatt hour, the point in which the PTC value would be zero. With this design, our effective revenues for nuclear plant will be between $40 and $43.75 over a range of revenue starting at $25. Equally important, we retain all of the upside when revenues are over $43.75.

So bringing this conversation to life, the green line represents an electricity price above the $43.75 threshold where we would not receive a PTC payment but would collect that price for our power sales, which is consistent with history. The orange line represents a $35 price where we are in the PTC zone and would, in turn, capture is $7 PTC because we are below the threshold, bringing the realized revenues to $42 a megawatt hour. Compared to the drop in power prices in this case, the PTC provides significant downside protection to our business and is a materially positive change from history when facing a lower price environment.

We have positioned our portfolio in 2024 to reflect this new dynamic from the downside protection that PTC provides. There are still many unknowns about exactly how the PTC will work that needed to resolve in treasury's implementation of the legislation. We expect to have this guidance before the end of this year, which gives us time to adjust our strategy once we have clarity. Now let me discuss how we are incorporating the PTC into our disclosures.

Slide 13 provides our gross margin update based on prices at year-end. In 2023, total gross margin is projected to be $8.35 billion, up $100 million from last quarter, lifted by higher power new business targets as we are seeing additional opportunities on the back of the strong performance in 2022. We are introducing our 2024 gross margin forecast of $8.95 billion, up $600 million from 2023. This is largely due to the timing of our hedges and higher prices. With this update, we have added a row to the bottom of our gross margin table for 2024 when the PTC program goes into effect. As you know, we're still waiting on final ruling of interpretation from treasury around the nuclear PTC, but we want to provide some insight into the financial impact. So let me explain what this line is and what it is not.

This line represents the PTC value we would expect to generate from our plants that do not have state support, so the Pennsylvania and Maryland units as well as LaSalle and Illinois, and using the more conservative spot price methodology that calculates the PTC value without consideration of hedges. In this representation, we will use the forward 2024 prices at each update to determine whether PTCs would be generated. Since we are still in conversations with the states around existing programs, we have not included those units in this analysis.

With price at December 31 above the $43.75 PTC floor that I discussed just a moment ago, we do not currently forecast PTC contributions in 2024, which is why there is no PTC revenues in this line on the table. We will plan to use this approach for addressing the PTCs with each quarterly update as we work to reach clarity on final implementation and treasury and outstanding issues with the state programs. After we have resolution on these issues, we will look to have a more substantive overhaul of our disclosures to best reflect the value and importance of the new for PTC to our market forward business.

Turning to Slide 14. We provide an updated view of our CapEx outlook through 2025. As Joe mentioned, we are making investments to derisk our business and set us up to create long-term value. Our CapEx plans have increased from the '22 Analyst Day with investments in the mid $2 billion for the next tree years. The majority of the increase can be attributed with $1.5 billion of organic growth projects, increased nuclear fuel spend and an increase in baseline CapEx, largely around timing. I will use the next two slides to talk through where we are seeing increases and why.

Moving to Slide 15. I'm excited to provide further details on the $1.5 billion of growth investments we are pursuing with each opportunity exceeding our double-digit unlevered return threshold. The IRA was transformational in many ways, including by allowing us to accelerate some projects where the economics are extremely compelling. We continue to believe that hydrogen produced in nuclear plants will play a critical role in addressing climate change by helping to decarbonize hard to decarbonize sectors.

We have spent considerable time over the last year exploring how we could play a role in the hydrogen economy and create value for our business and our owners. Nine Mile Point is the first -- was the first in the country to produce hydrogen from nuclear power. We are active participants in the mount two hub in the Midwest, the Mid-Atlantic hub and the Northeast hub, with each exploring commercial applications for hydrogen alongside nuclear-powered stations.

We plan to deploy approximately $900 million of capital towards building a first-of-its-kind commercial scale, greenfield hydrogen production facility in the Midwest. This facility will initially have a capacity of 250 megawatts, the equivalent of producing approximately 33,450 TPA of hydrogen and will be built for ready expansion to 400 megawatts. Approximately 90% of the hydrogen produced is expected to be sold through offtake agreements with customers who will be co-located at our facility. And as Joe has said, we expect to announce commercial deals in the coming months.

We are in the early stage design -- early design stages of this project. Procurement of the appropriate equipment, construction and commissioning will take some time. We expect the facility to be in commercial operation in 2026. The support for nuclear in the IRA has also made extending the lives of nuclear assets to 80 years more likely assuming continued support. It has also caused us to relook at nuclear upgrade opportunities that had been shelved the decade ago.

The 45 wide tax credit starting at $27.50 per megawatt hour for the production of new carbon-free electricity provides opportunities for us to expand the capacity at our plants. As a result, we have decided to pull forward planned turbine replacements in Byron and Braidwood and take advantage of the upgrade opportunity in the IRA by committing approximately $800 million from 2023 to 2029, demonstrating our firm commitment to preserving and enhancing our world-class fleet. Approximately $600 million of the spend was already embedded in our long-term plan towards the end of the decade. You can now see this step up in baseline CapEx on the prior slide beginning in 2023.

With our work to replace the aged turbines, we will invest an additional $200 million to fund even more efficient models and install higher efficiency, high-pressure turbines to gain additional capacity. These projects utilize the latest turbine technologies to address aging issues, increase operational reliability and reduce future turbine inspection frequency and duration.

In total, we will increase the asset of Byron and Braidwood by 135 megawatts. Turbines are long lead parts and will be installed during scheduled outages between 2026 and 2029 with increase in capacity coming from each round of work. We're continuing to evaluate other nuclear uprate opportunities and we'll provide updates on additional investments as we validate the scope of work and appropriate economics.

Finally, on growth, let me turn to our opportunities for wind repowering and refurbishing that Bryan talked about at the Analyst Day. We've identified $350 million of investments for approximately 315 megawatts. These projects have low risk of execution, will qualify for new PTCs and will make the existing sites more efficient to generate greater output at the same wind conditions. The first 70 megawatt, partially repowering is expected to be in commercial operation this year.

We're excited about these growth prospects, supporting our commitment to be a leader in advancing clean energy goals and earning appropriate returns on our investments. We see these investments they first step and will continue to explore additional opportunities that meet our double-digit unlevered return thresholds, while remaining disciplined in our decisions.

Turning to nuclear fuel on Slide 16. In response to the Russian-Ukraine conflict, our nuclear fuels team has worked diligently over the past year using their deep relationships and buying power to secure enough nuclear fuel inventory and future contracts to meet our needs through 2028 even as existing contracted Russian fuel supply was disrupted. This inventory build will bridge our nuclear fuel supply from now through 2028, at which point, multiple Western providers have stated they are able to have additional supply online. The incremental fuel buying is driving much of the CapEx increase with the remainder primarily due to sharply higher prices for uranium enrichments and conversion services as a result of the conflicts. We believe this is a prudent allocation of capital to ensure operating reliability given supply uncertainty.

From a P&L perspective, since fuel was blended in our operating expenses over time, we're forecasting year-over-year inflation in and fuel costs, but at levels still below $6 per megawatt hour when we get after the 2028 time period. We continue to work with the administration, Congress and other stakeholders to facilitate the expansion of domestic enrichment and conversion facilities within the United States to improve the security of nuclear fuel and its contribution to meeting our nation's carbon goals.

Turning to O&M on Slide 17. Our costs have moved up, but are generally flat across the disclosure period, setting the new baseline for costs for our current operations. These updates require some context to help better understand what we are seeing. When I look at the increase, there are several major buckets driving the changes from last year.

First, starting with growth-related expenses. We talked previously about the need to ramp our spending on growth to support all the strategies we've been talking about over the past year and that are starting to bear fruit with the announced CapEx. This number will vary by year, but will remain less than 1% of our total O&M budget.

Two, we have an increase in cost that also have revenue offsets captured in our top line forecast. The conversion of growth investments into contributing projects will have associated O&M costs, including the big capital projects we just talked about like hydrogen, but also spending on initiatives of commercial that are capital-light, for example, our core growth strategy but have profitable revenue contributions.

We're also anticipating higher future bad debt expense with higher prices and what are more predictable default rates, but we've been adjusting our pricing to reflect this higher cost. As our growth investments come online, you should reasonably expect O&M increases that are more than captured with higher revenues.

Three, as we discussed on the last call, although we had some labor and supply inflation productions, we are not immune from inflationary pressures or the impacts of re-staffing our workforce during these highly competitive times. As Joe said, the people working at Constellation are the key to our success and ensuring that we not only attract the best talent but retain them is paramount. To do this, we must be competitive with our paid benefits.

Fourth, the CMC saved the Illinois plants retirement for five years and the IRA now gives us greater confidence that these plants and the entire fleet will continue to operate for 80 years with continued policy support. Prior to the IRA passage, we're always looking over our shoulders about how long some of our units would run beyond existing state support mechanisms, and we're understandably making decisions on the level of investment in cost based on life expectancy. We have reversed those decisions, and as a result, they are contributing to some O&M increase from Analyst Day. When we look at the long-term value of these assets, we believe the additional spending is appropriate.

And finally, we've learned a lot over the course of the year as our first year as a standalone company. We have found that some of our support cost assumptions were not sufficient to support our base business, let alone one poised to take advantage of our future opportunities.

Turning to Slide 18, we show our projected credit metrics for 2023, which remains firmly in the mid to high BBB equivalent range. At S&P, we are rated BBB and remain on positive outlook following our recent upgrade and remain Baa2 at Moody's with a stable outlook. The investment grade balance sheet continues to bring value and provide competitive advantages in today's markets, positioning us well as we head into 2023.

Our balance sheet, along with our debt maturity profile with a weighted average maturity of 13 years, provides us flexibility as we continue to look to grow our best-in-class fleet both organically and inorganically. It provides us with more opportunities to transact in volatile commodity markets where margins expand as risk is more appropriately reflected in pricing, and we are better positioned to service our customers, all while meeting our liquidity needs.

Turning to Slide 19. Let's talk about our capital allocation plans for the next two years covering 2023 and 2024. Starting on the left, we forecast approximately $4 billion in free cash flow before growth after absorbing the increase in base CapEx and nuclear fuel that I covered earlier. Moving to the right, we continue to manage our balance sheet to our 35% CFO to debt target, which with the increase in earnings and cash flow, affords us about $800 million of debt capacity after higher net collateral requirements.

Collectively, we have approximately $5 billion of cash available for allocation. Approximately $200 million will go towards the remaining capital and O&M spend related to the separation and for the ERP system implementation with the rest then going to our value creation and return commitments we've been discussing today. Nearly $800 million will be returned to our owners with the doubling of the common dividend this year, growing 10% next year and beyond.

$1 billion of the $1.5 billion of growth CapEx will be deployed over these two years, again, with returns exceeding our double-digit unlevered threshold. We then plan to return another $1 billion to owners through buybacks. That leaves us with approximately $2 billion of unallocated capital over the next two years. This unallocated capital provides us with flexibility to pursue our strategic priorities, including nuclear M&A and additional organic growth as long as those projects meet our return thresholds. And as you're seeing today, if those opportunities don't materialize, we'll return the capital to our owners.

Thank you all for your time today. We look forward to another strong year in delivering on our financial commitments, and I'll now turn the call back to Joe.

Joseph Dominguez {BIO 16668698 <GO>}

Hey, thanks, Dan. Well, folks, as you can see, we had a pretty spectacular first year as a company. And now it's time to have another one.

In '23, we're going to continue to focus on operational excellence, delivering on our financial commitments and working towards our purpose of accelerating the transition to a carbon-free future. We're focused on ensuring the success of the hydrogen work we're doing, delivering additional megawatts and extending lives of critical clean energy center assets. We'll work with Treasury and other states on IRA implementation issues, and we will continue to effectively deploy capital to the benefit of our shareholders. We will continue to update you throughout the year on these matters during our calls.

Now, Justin, I think it's time for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) And our first question comes from James Thalacker from BMO Capital Markets. Your line is now open.

Q - James Thalacker {BIO 1794957 <GO>}

Hey, great. Can everybody hear me?

A - Joseph Dominguez {BIO 16668698 <GO>}

We sure can. Good morning.

Q - James Thalacker {BIO 1794957 <GO>}

Alright. Good morning. Hey, thanks for taking my question. Maybe this question is for Dan. I guess I was hoping to get a little more color on the higher growth-related CapEx that you've outlined in the updated slides. And specifically, you discussed generically that these organic growth projects will exceed your double-digit thresholds.

So I want to confirm that this is a double-digit unlevered IRR threshold first and foremost. But then I was also hoping that maybe you could discuss a little bit if we look at these three different channels whether it be hydrogen, nuclear uprates or repowering, could -- are there different return profiles for each one of these or just disproportionate return? And is this driven by a function of the leverage that you think you can put on these discrete projects? Or is it driven more by the overall economic margins you see prior to the leverage?

A - Joseph Dominguez {BIO 16668698 <GO>}

Hey, James, I'll start off. It's an unlevered return threshold. We've been hopefully clear on that in these calls. It's hard to kind of say the different ways will always have different value. But we see a lot of value in the upgrades. Dan could kind of walk through why that is. But it's combination of the capacity factor and the fact that we could do these upgrades and not have the O&M that any other kind of asset would have.

And I think on hydrogen, we're still learning. I think -- what I can tell you is we're comfortably within the parameters that we've set for investments. And I think as we start rolling through some of these investments, you'll have a better sense of how repeatable they are and what the numbers actually are. And I know we will announce those projects as we get to execution, and you'll get a chance to see that. Dan, do you want to talk a little bit about the upgraded work?

A - Daniel L. Eggers {BIO 3764121 <GO>}

Yes. I mean it's kind of interesting when you think about the uprates at 135 megawatts. It's a lot of megawatts when you put it in clean energy equivalent value, right? It's almost the same as 400 megawatts of wind. We're going to get that equivalent energy output $200 million with the same $27.50 per megawatt hour PTC tax credit, right? So think about the gearing on how many megawatts you get to that amount of capital is quite attractive.

As Joe said, all of that back-end work, right? There's no additional O&M. There's no additional fuel to make those work. So there's -- the economics on those look awfully good, and we're continuing to run down a list of projects to see what else we can advance forward. It will take some time to get those on, as I said, just based on the timing of getting equipment manufactured and then managing the refilling our business. But that's -- and it's great for the environment. It's great for the company. So we're real excited about those.

I think the other question you asked was about kind of leverage and how that's affecting the return? As Joe said, these are all unlevered investments at this point in time. Our assumption is we're managing our balance sheet to that 35% CFO to debt. That's been kind of the buoy [ph] for us for the last year and will continue to be. So the future opportunities to think about finding some differently. We'll look at that. But I think we have the time to further in service to make those decisions.

Q - James Thalacker {BIO 1794957 <GO>}

Okay. Great. Thank you so much for that. And I guess just one other real quick question. I guess in sort of pre-spinout, one of the things you talked about in terms of capital return is obviously the dividends and the organic growth. But there was also a discussion in terms of common stock buybacks versus special dividend. Can you give us a little bit of a view, I guess, on how you're thinking about that trade-off between doing common stock buybacks versus actually when you would actually look at a special dividend as a preferred route to get money back to shareholders?

A - Daniel L. Eggers {BIO 3764121 <GO>}

Yes, it's a good question. And thinking about where we are, it's been quite a year, and we've learned an awful lot about the business as far as where our investment opportunities are. The IRA dramatically began to change the landscape for opportunities to deploy capital. I think about hydrogen, think about the operators, there's a lot of things that have really opened up, and we made a lot of progress this year, $1.5 billion of growth capital from an organization that wasn't putting that kind of capital to work.

Our expectation is 2022, we're going to learn a lot more about the opportunities for investment. We're going to see how inorganic opportunities play their way through. But I think we're going to continue to learn more about the size, scope and duration of our investments. And that will then inform some of our capital allocation decisions for the long term, right? We think that the dividend increase today made a lot of sense. It's still 20% or less of our free cash flow before growth. We think that's a very reasonable payout at this time. And it will continue to evolve. But I think the balance right now is the growth investment, the dividend and the buyback is the right setup.

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes. The only thing I'd add to that, James is that, obviously, we're looking at the relative value of our stock right now compared to other assets in the market. At the end of the day, the Board is making a determination of how we feel about our own company, our value and the value of the investment in stock. That will move around certainly over the course of the years, and it may cause us to make different decisions halfway. But that relative value and the tax correction are things that drove us to a buyback.

Q - James Thalacker {BIO 1794957 <GO>}

Great. Thank you so much, guys. Appreciate the time.

Operator

And thank you. And one moment for our next question. And our next question comes from Steve Fleishman from Wolfe Research. Your line is now open.

A - Joseph Dominguez {BIO 16668698 <GO>}

Hi, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. Hi, good morning, everyone. So just a couple of things. The increase in CapEx related to fuel, could you just talk to how much of that is kind of this inventory build versus actual higher fuel cost? And then also just how long does this inventory build last? Does that higher level of CapEx start rolling down after the period you're showing? Or could you get some sense on that?

A - Daniel L. Eggers {BIO 3764121 <GO>}

Yes, Steve, I'm not going to give you the exact numbers. But what I said in the prepared remarks is the majority of that increase is associated with inventory over this period in time. Remember that what we're doing right now is we're continuing to expect that the Russian deliveries are contracted to provide, will continue to occur. We will be buying fuel from other providers who will make sure that we would cover any potential Russian shortfalls. We'll be net building inventory out towards 2028, assuming Russian delivery -- if the Russians were to -- if fuel is no longer available to us the capital numbers would change.

We are admittedly seeing higher prices both on the pieces of fuel we had not previously purchased. And then we've talked to you in the past about there some hedge advance in our numbers. When you saw uranium move, really conversion and enrichment services go up 50% to 100% over the course of the year due to the conflict, that is putting upward pressure on that fuel bill. So it is more than inventory reserve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay.

A - Joseph Dominguez {BIO 16668698 <GO>}

And Steve --

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes.

A - Joseph Dominguez {BIO 16668698 <GO>}

To your question, how long. I can't get a sense it's how long is this price is going to continue to unfold. But right now, I think this is where we're going to be at for a number of years. We just -- the philosophy here is pretty plain and simple. We're never going to be in a position where we don't have fuel for our machines. We're going to take that risk issue off the table for ourselves and for our owners. And so that's driving our plans right now. And I think and given what I'm saying with the Russian situation, what we're all saying it's going to be like this for a while, maybe permanent.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Secondly, on the hydrogen project. When we think about how you're going to capture returns there, obviously you'll have an investment and some kind of, as you said, contracts for the hydrogen. But how should we think about the interaction between the nuclear plant and what it sells its power at to the hydrogen projects? Like is -- will some of the return come from that side, too? Or how should we think about that?

A - Daniel L. Eggers {BIO 3764121 <GO>}

Yes. I think that when you look at the returns, right, the power sales have got to stand on their own, right? We look at the returns or economics of the hydrogen facility, the input production of hydrogen in sale, that's what we're talking about, the double-digit leverage returns. So the investment there, the production and sale of the hydrogen is going to make economic sense on its own. The generation will be sold at a price that makes sense for us also. So we're not co-mingling our returns adjusted by a hydrogen bill.

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes. Steve, it's a really cool kind of investment because in a certain sense, if energy prices were to decline, there's incremental value on the hydrogen side because what's happening. Let's just kind of pretend some numbers here. Let's suppose prices go from $40 to $35. From a company standpoint, we're going to get the tax credit that will true us back up at $43.75 for the energy sale. Plus production of hydrogen just became cheaper. So it's -- we've talked about it quite a bit here. It's one of these interesting things that's been the holy grail in this business. How do you find value in businesses that are negatively co-variant to natural gas?

So that actually, when natural gas prices go down, it's a better story for Constellation and the top line story is immediately what's happened to power crisis. Before supporting the PTC, does that to a significant degree, as Dan mentioned. But the other piece of it that's interesting is this interaction between power prices, making hydrogen even more economically viable at lower prices. So it's the ability to get both of these production tax credits that makes it a very good strategic way for us.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. And last question just on -- obviously, last fall, you were very focused on M&A at the time and now not as much. And maybe you could give us some perspective on just what are you seeing in the nuclear M&A market that from the processes you've kind of been looking at it such? And how does that kind of impact your thoughts on that for the future?

A - Joseph Dominguez {BIO 16668698 <GO>}

Look, I -- we're always bound by confidentiality when we look at any group of assets or any companies. So I'm not going to get into the specifics. What I would say is the same impact that has happened to our fleet and the value of our company is expressed in those acquisition values for M&A. But that's where we get to kind of have to take a little bit more of a disciplined view of looking at the quality of the assets that are available, how well they have been maintained and this big criteria for us around dual unit sites as opposed to single unit sites. For our fleet, we're invested in 23 units. 21 of them operate as a dual unit site or effectively as a dual unit site. The only two plants that are outliers are Clinton, right, and Guinea [ph]. And in both those circumstances, the reason they're part of our fleet is because the states have had clean energy policies that require the existence and continued operation of these plants.

So that's the way we've looked at it. We've run every single one of these assets out there. We know exactly what to look for in diligence and we've been disciplined. I'm not trying to signal to you that we think any less of the consolidation opportunity. That's not my intent here. But I think when people heard us talk about discipline, they had a view that, that was something that we sold on and we're not. We already have a tremendous business here, unparalleled by any other group of assets, and I'm not going to dilute it by overpaying for anything. If there are assets that come to us that are available at what we believe is a reasonable price and they meet the criteria we talked about, we're going to go after it. But it takes two hands to clap in this space.

And I think the other reality is we probably aren't seeing the same passion for separating these assets from traditionally regulated utilities that exist in pre-IRA and frankly throughout the separation of Exelon into its two component parts. So that's what we're seeing. I think there will still be opportunities, and we'll kick the tire on everything. So I don't want to indicate a lack of opportunity, but it's the reality of our discipline and the reality, as I said, of the fact that these units are more valuable in the IRA setting, and strategically, companies are holding on to them.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Thank you very much.

Operator

And thank you. And one moment for our next question. And our next question comes from David Arcaro from Morgan Stanley. Your line is now open.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Good morning. Thanks so much for taking my questions.

A - Joseph Dominguez {BIO 16668698 <GO>}

Hi, David.

Q - David Arcaro {BIO 20757284 <GO>}

I'm just wondering just you've got $2 billion of additional capital that hasn't yet been allocated. Wondering just what the milestones or timing you would envision in terms of identifying other investment opportunities to start to allocate that capital. Could more opportunities kind of pop up through 2023? Or is that potentially a chunk that could roll over into 2024 and serve as an ongoing base for a potential allocation?

A - Daniel L. Eggers {BIO 3764121 <GO>}

David, it's a good question. I'd say that -- as I said, we've learned a lot in 2022 about opportunities going forward. We have a lot of things in queue that we're looking at right now. Joe reiterated the fact that we're still very interested in inorganic opportunities when they make the right sense for us and maintaining that flexibility. And I think there's $2 billion certainly afforded that to us to look at opportunities they progress this year and into next year makes a lot of sense.

I don't think we have a shot clock saying we're going to have a decision by X date to release some amount of this money if we don't have an investment or whatever, but we'll be prudent as we saw this year as far as making high-return investments and then returning the excess. And that's how you should look at us moving forward.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Got it. And then I was just wondering, just digging a little bit more into the hydrogen opportunities, I was curious which end markets you're envisioning in terms of who might be the off-takers for the hydrogen? Wanted to clarify, they're taking the volume directly from the site so you don't have to deal with transportation. And I was also just curious if there's an electrolyzer producer or technology identified at this point?

A - Joseph Dominguez {BIO 16668698 <GO>}

Yes, David. On the latter, we have that -- the developer and who's going to make the electrolyzers. We have a pretty good sense of that. But we haven't announced it first day and we went into a competitive process. So I'm going to hold on that. In terms of the offtake, you're exactly right. We're looking for opportunities where the customer counterparty is at the site, taking the hydrogen at the site without the need to compress or otherwise transform through pipelines or whatnot the hydrogen to other facilities.

I guess the cautionary point on all of that is that, we're part of this hub and that hub is still evolving. And so I do anticipate there are possibilities that hubs will include pipelines, hydrogen to customers that are off our premises, and we'll see how that kind of plays out. But -- and I hate to not share it all, but I don't want to front-run the announcements we'll be making on this, and we've still got some commercial terms that we've got to work through and get these deals executed.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Got it. And no indication at this point as to just the end market in terms of if it's industrial uses or fertilizer or jet fuel or other areas like that?

A - Joseph Dominguez {BIO 16668698 <GO>}

Not proportionally, but the answer is, yes. I think at the end of the day, it's going to be all of the above will be markets for hydrogen that are at best produced at our site. But let me kind of leave it there.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Thanks so much. Understood. Appreciate it.

Operator

And thank you. And one moment for our next question. And our next question comes from Paul Zimbardo from Bank of America. Your line is now open.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Hi. Thank you, team.

A - Joseph Dominguez {BIO 16668698 <GO>}

Hey, good morning, Paul.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Hey, good morning to you also. I was hoping, could you elaborate a little bit on that comment on the slide about working with the state policymakers to reduce the nuclear support, I assume, the ZECs? What states are you working with? And what would the timing, whether that's legislative or regulatory, to get conclusion?

A - Joseph Dominguez {BIO 16668698 <GO>}

Paul, I've long ago learned that the worst way to kind of have these discussions with policymakers is to talk a heck of a lot about them on earnings calls because we're having these conversations where you would expect us to have them. Let me flip it over to Kathleen with the caution that these are confidential discussions and we'll see how they unfold.

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

Yes. Sure, Joe. I mean I think you know the locations where we're talking about. We have state programs in three places and we have four programs across those states. So that's where we are. And of course, the goal is to make sure that these states that acted first to keep the plants online get some benefit coming out of the national support for the nuclear fleet. So what we need to work through is just precisely how those provisions are going to work, both federal and state, and importantly, the timing to make sure that everything lines up properly. So as we said, we've started to have the conversations and we will let them play out according to how the states would like them to and not sort of discuss that anymore at this point.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Duly noted. And then I know you commented a little bit on the special dividend commentary and relative value. But just at a high level, what's the philosophy around the authorized share repurchases? Is it something more programmatic or opportunistic?

A - Daniel L. Eggers {BIO 3764121 <GO>}

Yes. And I think as Joe said, we see real value in our software. It is here today. We have the $1 billion authorization. I think we will find ways to be in the market and I probably want to get into the strategy more than that isn't like particularly prudent to get too much of a layout. But we like where the stock is here for sure.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Great. Thank you, all.

Operator

And thank you. And I am showing no further questions. I would now like to turn the call back over to Joe Dominguez for closing remarks.

A - Joseph Dominguez {BIO 16668698 <GO>}

Well, thanks, everybody, again, for joining the call for your interest in our company. It's been a great ride this first year. But as I noted earlier, our attention now is focused on '23 and beyond. We're off to a strong start. And I just want to thank again the folks at Constellation who made this happen every single day at the plants, in the commercial business and the back office functions. The stats ought to demonstrate this, but we feel we have the best team in the business, and we're just really excited by what the future may hold for us. So thanks again to everybody, and we'll talk again at the next quarter.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.