CEG Earnings Call Transcript

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Quarter: 2

Operator: Good morning, ladies and gentlemen, and welcome to the Constellation Energy Corporation Second Quarter Earnings Call. [Operator Instructions] As a reminder, this call may be recorded. I would now like to introduce your host for today's call, Emily Duncan, Senior Vice President, Investor Relations and Strategic Initiatives. You may begin.

Emily Duncan: Thank you, Tania. Good morning, everyone, and thank you for joining Constellation Energy Corporation's Second Quarter Earnings Conference Call. Leading the call today are Joe Dominguez, Constellation's President and Chief Executive Officer; and Dan Eggers, Constellation's Chief Financial Officer. They are joined by other members of Constellation's senior management team who will be available to answer your questions following our prepared remarks. We issued our earnings release this morning along with the presentation, all of which can be found in the Investor Relations section of Constellation's website. The earnings release and other matters, which we will discuss during today's call contain forward-looking statements and estimates regarding Constellation and its subsidiaries that are subject to various risks and uncertainties. Actual results could differ from our forward-looking statements based on factors and assumptions discussed in today's material and comments made during this call. Please refer to today's 8-K and Constellation's other SEC filings for discussions of risk factors and other circumstances and considerations that may cause results to differ from management's projections, forecasts and expectations. Today's presentation also includes references to adjusted operating earnings and other non-GAAP measures. Please refer to the information contained in the appendix of our presentation and our earnings release for reconciliations between the non-GAAP measures and the nearest equivalent GAAP measures. I'll now turn the call over to Joe.

Joseph Dominguez: Thanks, Tanya and Emily for getting us started. Good morning, everyone. Thanks for joining our call and for your interest in Constellation. I know it's a busy time with all these earnings calls going on around the same time and you guys are hopping from call to call. We appreciate your interest in what we're doing here. Last but not least, I want to thank our team here at Constellation for delivering another strong operational and financial quarter. We always say this, people are the backbone of our success here. I'm really proud of the culture we have built together. It requires constant work and attention, and we're never perfect at it, but our leaders are all over it. They work at it every day. And that's why I'm especially thrilled to start the call by telling you that for the third year in a row, we've been recertified as a great place to work. Now I've talked about this before. This is the only certification you get based on the input from your own folks. And when you think about them as customers, as a servant leaders we want to be, getting that feedback and their appreciation for what we're trying to do is everything to me. Now turning to the quarter and our financial results. We delivered second quarter GAAP earnings of $2.67 per share and adjusted operating earnings of $1.91 per share, improving on last year's second quarter performance. As always, Dan is here and he'll walk through the details. Now as you'll recall, last quarter, we were a bit frustrated by our inability to be in the market buying back shares due to where we were in the Meta Clinton deal process. In fact, to let you in on it, I think we were thinking it was a horse race as to whether we were going to get the call in before the announcement or vice versa. Now since the Meta announcement, we have executed $400 million in Accelerated Repurchases. And like the others we've done, these stock repurchases continue to

generate a wonderful return. With long-term contracts like our Meta and Microsoft deals now becoming an ordinary part of our strategy and a normal course of our business, and hopefully, you think we're good at it. We don't have to pause stock repurchases. And to be crystal clear, you shouldn't assume anything about the timing of any new transaction from whether or not we're in the market purchasing shares. Outside of our strong financial performance, it's been an exciting time for the company since we last met. We saw the Big Beautiful Bill signed into law, preserving and actually strengthening the nuclear provisions and serve as a continued demonstration of the unique and strong support for nuclear across party lines. We announced that we were bringing the restart of the Crane Clean Energy Center forward into the second half of 2027. I remember when we talked about that, people were skeptical that we would restart in 2028. They were right to be skeptical. We're going to start it in '27. We received New York, Texas and FERC approvals for the Calpine acquisition, and we remain on track to close by the end of the year. And as we just discussed, we announced a 20-year power purchase agreement with Meta for the offtake of Clinton Clean Energy Center to help them meet their clean energy needs. This transaction is a big win for everyone. The PPA ensures that over 1,100 megawatts of emissions-free nuclear energy will be around for decades to come. And it actually allows us to make investments to increase the output and bring even more megawatts to the grid in Southern Illinois at a critical moment for America, let have made this happen. We love the partnership, and I'm hopeful we can continue that partnership. Beyond the Clinton transaction, we continue to make very good progress with customers to reach additional agreements to sell our clean, reliable and available megawatts from our nuclear plants. Now look, this is always going to be the part of the call where we get questions. Inevitably, of course, you want to know exactly where we are in every deal. And inevitably, of course, I'm going to tell you that we can't comment on deals until they're done. And even then, we're going to keep some of the terms confidential. So let me try to guide you here with as much as I can say. First, for those of you who are fond of the baseball analogy to describe progress, I would simply say that we're in the late innings on one transaction. We're past the seventh inning stretch. We've song take me out to the ballpark on that one. And I'd say we're in the middle to early innings on other transactions. But most importantly, from my perspective, we're seeing a continued acceleration of interest from a growing number of entities. The second thing that I'd like you to remember here is that sometimes, you have the pricing and the deal terms done, but you need other things to enable a transaction, specifically in the case of front-of-the-meter deals, interconnection work with the utilities. So if you want to connect the dots here, I think on one transaction, we are well on the way to being done, but are waiting for some inputs from utilities. As we said from the start of the company, clean and reliable megawatts are the most important energy commodity in the world today. Many customers we engage with every day believe the same thing. And that gives us great confidence that we'll be able to continue to transact, whether that be front of the meter or in co-located [configurations]. When we announced the Calpine acquisition, we talked about the importance of natural gas' role in the data economy and the reliability of the system. And notably, in this regard, we were pleased to see Calpine's announcement supporting 190-megawatt data center near the Thad Hill Energy Center in Bosque County. We expect to see more of these transactions in the future across the industry. And with respect to Calpine, we think the combination of gas and nuclear gives us a huge competitive advantage. It allows us to provide a differentiated product that combines fast and reliable interconnection at both nuclear and gas sites and the benefits of being able to provide clean and reliable energy product to our customers, firm, clean energy that is priced at a visible rate for 20 years or more if the customer desires it. That's a big deal. Now let me shift gears a bit. Justifiably, given its skill, we talk a lot about data center customers. But you got to remember here that many of our businesses value and buy clean nuclear, and that continues to accelerate. This quarter, I'm pleased to announce a significant new carbon-free energy transaction with Comcast, a company that's been a wonderful partner to Constellation for many years. As part of it, Comcast will be supporting upgrades. So again here, in this deal, we see a connection between private customer agreements and our country's objectives of preserving and growing clean and reliable energy. And finally, as we've talked about before, we see interest from governments. The interest was shown to you with the GSA deal. And while many of you have been grinding through industry calls this week and the last week, you might have missed that the New York Department of Public Service staff released an important white paper calling for a 20-year extension of the ZEC Program in New York that

covers over 3,000 of our megawatts. In New York, the staff concluded that it's essential that nuclear be preserved to meet its clean energy goals and our facilities be relicensed. You remember that New York was the first state to have a policy to support existing nuclear plants, understanding their importance as clean, firm and reliable. Extending the ZEC Program ensures that these plants will be there to support New York for decades to come. We commend the paper to your reading. As I said, it's been an incredibly exciting quarter here at Constellation and in many respects, it's been a historically important quarter. It's a quarter where you see everything we have told you now coming to pass. The customer and bipartisan political support for nuclear getting the Big Beautiful Bill behind us is just huge. Constellation's ability to execute deals has been demonstrated. The importance of reliable natural gas to both the data economy and to America, supporting our Calpine deal is more evident now than ever. Our continued ability to grow organically and inorganically through M&A; and most importantly, the strength of Constellation's commercial and operational performance, and that's, of course, the foundation for everything we do and why I always start out the calls thanking our great team here. Let me turn to Slide 6. The passage of One Big Beautiful Bill was an undisputed win for nuclear power. Now remember here, it was passed by all Republicans and it preserved and actually expanded the nuclear credits from the Inflation Reduction Act, a bill that was passed by all Democrats. So it's one of the only things the 2 bills have in common is that it supports existing and new nuclear plants. There's a lot of things we have a hard time agreeing on as a country. And like you, I wish we could find more. But one thing is clear, the benefits of nuclear energy for families, for local communities, for states and the economy as a whole is something that we all can agree on. And I'd like to thank President Trump and the political leaders on both sides of the aisle for acting to preserve and advance nuclear power in this country. The bill maintains the critical 45U production tax credits for existing facilities through 2032, and it gives us great confidence that those tax credits will be renewed going into the future. It also preserves the 45Y Clean Energy tax credit for new nuclear and uprates, providing the full credit for projects that begin construction into 2033, and partial credit through 2035, recognizing that new nuclear will take some time to get going. In addition, it adds a new nuclear energy community bonus of 10% on top of the 45Y Credit. We expect the Crane Clean Energy Center as well as every one of our Uprate projects to qualify for this 10% bonus. Finally, the bill also extended the tax provisions that were set to expire with the Tax Cuts and Jobs Act of 2017. And I'll let Dan, talk about these additional and significant positive impacts for us. Supportive nuclear from the administration did not stop, as you know, with the legislation. I was very pleased on behalf of the industry to join President Trump in the Oval office when he signed the executive orders that signaled full support and a clear intention by his administration that they want to preserve and expand nuclear power because it's vital to the economic and national security of the United States. The nuclear EOs rightly focus on common sense initiatives to expand the existing fleet with fast track licensing, increased domestic conversion and enrichment, and accelerate the deployment of new reactors, all while maintaining the NRC's track record of being a responsible regulator that places safety at the top of every consideration. And this administration like many policymakers on both sides of the aisle, those that American Energy is critical to winning the AI race against China. The AI action plan unveiled in July calls for streamlining permitting of data centers and energy infrastructure and developing a grid that could match the pace of AI innovation. We're going to be at the heart of that. But it's not just Republicans who are taking actions to support nuclear, both new and existing. At the end of June, in addition to supporting the continuation of the ZEC Program through 2049, which we just talked about, New York Governor Hochul, called for building 1 gigawatt of Nuclear in upstate New York to support a reliable and affordable electric grid while providing the necessary 0 emission to achieve a clean energy economy. This follows our work at Nine Mile Point on an early site permit. And as I've said to all of you before, I think one of the unique advantages we have here at Constellation is the real estate that we own around our existing plants because it just makes sense to us that when we build out new nuclear we're going to build it out in communities that already have all of the infrastructure and the enormous support for the existing plants and most importantly, a talented workforce that could operate the new nuclear units. We're excited to participate. I know it's early innings on this work, but I think it is going to be a signpost for other states. And I'm excited for the opportunities to expand nuclear in places like Maryland, Illinois, Texas, and Pennsylvania. To sum this all up, while political and customer sentiment doesn't always follow logic and facts, in this case, it clearly does. Firm,

clean, reliable nuclear power is the most important energy commodity in the world today. And through Constellation, you, our owners, have more of it than anyone. We will do great things together for America. Turning to Slide 7. I want to talk a little bit about the PJM capacity auction and what we see going forward. First, before I talk about future auctions, I think it's time to level set a little bit on the past. There's a narrative that's been building up that data centers are entirely responsible for prices going up. You got to remember here that, that narrative is false. Certainly, there's been a rise in demand driven by the growth in the data economy, by things like vehicle electrification, by general economic growth and the reindustrialization of America as our nation pursues its America First strategy. All of these things are cumulatively increasing demand and prices will rise through simple supply and demand economics. But the principal reason that we saw a step change in the PJM capacity price is because FERC ordered changes to the PJM market that were absolutely necessary to address reliability gaps. Why were those changes needed? Well, remember, those changes were needed because the market design that we used to have pretended that we live in a fairy tail land where all megawatts had equal reliability, equal to nuclear. When the analytical evidence screamed at us for many years that some forms of generation are simply more reliable than others. It took longer to effectuate the changes that it should have and the delayed auctions added to the uncertainty, but the design work is completed and the market is working. Already in this last auction, the market cleared 2,700 megawatts of new and upgraded generation capacity on what was a really short turnaround since the last auction, bringing in more supply to support the growing demand. And through PJM's RRI process, which Governor Shapiro, and Constellation, and many others supported, we know that more than 9 gigawatts of new, firm, reliable supply will come online by 2032. In addition, we saw more than 300 megawatts of generation participate in the auction rather than retire. We were happy to support the consumer protection price cap championed by Governor Shapiro, and it worked. It starts to stabilize prices so that we could step into the higher prices that were inevitable as a result of the design changes that FERC has made. And we think that will continue to work to help customers transition. It's important because we understand the focus on customer costs, especially residential customers. But again, let's put this all in context. Starting with the critical fact that generation costs have actually declined 38% from where they were from 2010 to 2024. This compares very favorably to transmission and distribution costs, which have not declined, but instead have risen 290% and 57%, respectively, and electric wires costs are not alone. Water, sewer and trash is up 77% on average. Car insurance, which we all pay for, at least should, is up 125%. We appreciate the impact on everyone's pocket book, and we will do what we can to mitigate these things. But the competitive generation market has been a remarkable story, particularly in comparison to other aspects of the energy ecosystem. And Constellation is doing more than anyone to meet its part to deliver the reliability that is needed for America. We're investing billions of dollars to restart, operate and extend the lives of nuclear generation. We had more than 1 gigawatt approved through the RRI process, including Crane and the Byron and Braidwood upgrades. We're bringing Crane online earlier than planned, moving it up to the second half of 2027 with the aim to try to get it in the capacity auction for the period that begins June 1, 2027. We still got some work to do there, but I'm hopeful we could get there. We have 3 large upgrades that we are completing engineering work on totaling nearly 900 megawatts that we could bring on at LaSalle, Calvert, and Limerick, with adequate customer support. And last week, we announced our collaboration with GridBeyond to use AI to help our customers reduce peak energy use. This program will offer customers the opportunity to cut energy costs and unlock new revenue streams while helping the market maintain system reliability as we respond to growth. Reducing peak demand by only a small map, 25% or 22 hours a year would allow 76 gigawatts of new demand to be absorbed. That's the most effective way to deal with the new demand. The latest auction results once again proved how markets, not monopolies, best work to attract enormous private investment. And we all see -- any observer all sees the tremendous interest by so many parties to build generation in these markets. And private investment by these companies means that companies and not captive monopoly customers take the financial risk, the market risk, the technology risk and the construction risk rather than saddling captive customers with the consequences of poor decisions for decades to come. We have no doubt how policymakers will view these issues. Turning to Slide 8. In June, I was incredibly proud to announce that the Crane Clean Energy Center will return faster and it was great to have Governor Shapiro at the event. To give you some follow-up

details on that. We've secured the fuel. We've got all the major equipment. We're 70% staffed, and we're walking through all aspects of the plant. And quite frankly, we're just so confident in the team there because the plant was in such phenomenal condition when Bryan and the team laid it up in 2017. To say I'm proud of all the work here has been an understatement. Before I turn it over to Dan, I want to touch briefly on the Calpine transaction. Details are here for you on Slide 9. The more time we spend with the Calpine team, the more I'm excited about the combination of the talented people in both companies. We've received 3 of the necessary approvals, and we're working with the Department of Justice on a second request for data. And hopefully, it puts us on a track to complete the work with the department and have this transaction close by the end of the year. The sooner we could get it closed, the sooner we could offer American families and businesses the unique capabilities of the combination of these businesses. And I'm super proud of the regulatory team that has worked to get the 3 approvals we've gotten, and I'm hopeful that we will get the last one here shortly. With that, let me flip it over to Dan, and then I'll have some closing comments after Dan, and we'll finally take your questions.

Daniel L. Eggers: Thank you, Joe. Good morning, everyone. Beginning on Slide 10, we are in $2.67 per share in GAAP earnings and $1.91 per share and adjusted operating earnings in the second quarter, which is $0.23 per share higher than last year. Similar to the second quarter last year, the fleet performed exceptionally well and provided critical around-the-clock supply at a time when PJM saw peak loads materially outpacing its summer demand forecast. Our commercial team once again successfully managed a period of extreme volatility, where at times we saw triple-digit real-time pricing across much of the East Coast. In addition to the strong performance from our generation and commercial teams, we also recognized $201 million from the Illinois ZEC Program for bank credits. This is similar to what you saw in the second quarter of 2023. As you may recall, the Illinois ZEC Program includes an overall cost cap as one of its consumer protection features, but allowed us to bank excess credits for use in future years if there was a fall of the cap, which is what we did again this year. The impact of these credits and the banking mechanism have always been included in our full year 2025 guidance. Slide 21 in the appendix provides more details on the mechanics of the Illinois ZEC Program. Full year gross receipts for the majority of our fleet continue to be at or above the PTC floor, resulting in significantly fewer PTCs being accrued this quarter compared to the second quarter last year. This is a good outcome and the means tested program continues to work as expected, that will result in noise when comparing year-over-year results on a quarterly basis. The extraordinary stock performance this year translates into higher book compensation expense for us creating some earnings wins that we will continue to monitor. That said, we are reaffirming our full year operating EPS range of $8.90 to $9.60 per share. Moving to Slide 11. As I mentioned before, our fleet performance was excellent during a period when it was needed to support unseasonably high demand across our operating footprint. Our nuclear team posted its second best fleet production ever in the second quarter and was ahead of plan with a capacity factor of 94.8%, producing more than 41 million-megawatt hours of reliable, available and emissions-free power. We completed 3 refueling outages in the quarter with an average duration of 19 days, beating the industry average by over 2 weeks. Being able to execute on these outages significantly better than the industry, provides incremental benefit to the grid, energy in the communities where we operate and of course, more power to sell. It truly is a testament to the operational excellence of our nuclear organization. Our renewables and natural gas fleets were also ahead of plan for the quarter with renewable energy capture at 96.1% and power dispatch match 98.3%. Our plants continue to perform when they are most needed. Turning to Slide 12. Our commercial team is off to another strong start this year. We're creating value from continued market volatility by optimizing our portfolio, locking in higher-than-average margins on retail sales and finding success in selling value-added products around the clean attributes of our nuclear plants. We continue to see robust renewal and new business win rates with our power and gas products, reflecting the durable relationships we have with these customers. Our scale and ability to develop products to meet the needs of our customers is truly a competitive advantage. We have spent a lot of time over the last 1.5 years talking about the incredible demand for long-term clean, firm and reliable power from the data economy customers and for good reason. But it has arguably overshadowed our success in selling these same products to our traditional commercial customers. For example, through June of this year, we have sold nearly double the volume of hourly carbon-free and emission-free products than we signed all of last year. Let me offer a little

more to mention what we're seeing with these sales. Remember that the ability to offer time-matched clean power has only been around for just over 2 years in PJM. So we're encouraged by the growth in what is still a relatively new market. Also interesting is that our customers for these products have mostly been from industries outside of the data economy, reflecting the breadth of demand for these offerings. Their products are rightly sold at a premium to typical C&I; deals compensating us for the uniqueness of a scarce firm around-the- clock carbon-free energy solution. And finally, the duration of these products varies, but they are typically much longer terms than those of our traditional commodity business. Another area where we're seeing tremendous growth is with data center customers we already serve. Focusing just on the accounts we have continually served over the last 3 years, we have seen their usage in the first half of 2025 increased 45% compared to the first half of 2023. This step-up in usage is probably not unique to Constellation, but it is indicative of the increased demand coming from the data economy, expansion of existing sites and gains in energy density even in existing facilities. Turning to Slide 13. I want to provide some brief comments around the financial impacts of the latest capacity auction. As a reminder for everyone, help with your modeling, with the nuclear PTC now in place, calculating the benefit from higher capacity prices is admittedly a little more involved than just the PxQ and depends on expectations for gross receipts. When we are below the PTC floor, upside in pricing will first offset PTCs being generated and then went above the floor, we would retain the upside. Fortunately, given where the current forwards are, our nuclear fleet is above the PTC floor for 2026 and 2027. So the uplift in capacity markets will flow to our earnings outlook, assuming prices hold. This earnings upside above the PTC floor will show up in our enhanced earnings bucket. That said, for the 3 sites in Illinois that are in the CMC program through mid-2027, any revenues above the CMC price will be refunded to customers. So we will not realize any upside benefit for these 3 CMC plants in Illinois, even though they cleared the auction. So from a financial impact perspective, we'll just focus on Constellation standalone and not include Calpine given where we are in the approval process. For 2026, the net EPS impact of Constellation is approximately $0.50 per share. For 2027, assuming we carry the same capacity prices forward to the '27, '28 auction, we would expect an approximately $1.50 per share increase in EPS and help calibrate with these earnings benefits. The delta upside did say conservatively low number around -- low 200s per megawatt day embedded in our expectations. Turning to Slide 14. The strength of our balance sheet continues to be foundational to the company and our capital allocation. The combination of our investment-grade balance sheet and strong free cash flow create strategic flexibility to fund the Calpine acquisition, as well as pursue future growth investments and return capital to our owners. On our first quarter call, we talked about our disappointment in not being able to repurchase shares on the short-lived dip. During the second quarter, following the announcement of the Meta transaction, along with reiterating that more long-term PPAs are part of our strategy, we're able to enter into an accelerated share repurchase program for $400 million. We expect this view of data economy deals as now being normal course to our business will afford us flexibility in when we can be in the market buying back stock going forward. And with this quarter's $400 million, we will have repurchased $2.4 billion of outstanding shares since the beginning of our buyback program, and still have about $600 million remaining under the current board authorization. We will remain opportunistic in returning that capital to our owners. Let me now turn to the One Big Beautiful Bill Act. Joe already talked about our excitement around the support for the nuclear PTC provisions, but there are some key other benefits from the legislation Constellation. The OBBBA includes an incremental 10% bonus on the 45Y Credit for nuclear energy communities that will provide incremental tax benefits for new nuclear megawatts. We expect the Crane Clean Energy Center as well as our other upgrade projects to qualify for this bonus. We also benefit from the general corporate provisions included in the legislation, moving from 40% to 100% bonus depreciation on our entire capital plan, including fuel as well as an immediate deduction for research and development expenses will meaningfully benefit our cash position. These provisions create an expected $200 million to $300 million of annual tax cash favorability per year for Constellation stand- alone. We expect that benefit to grow with Calpine and the capital plans there. We're excited about Constellation's performance and our financial position as we head into closing Calpine later this year. And with that, I'll turn the call back to Joe.

Joseph Dominguez: Thanks, Dan. Great job. So look, Dan and I have covered, we had a pretty great

first half of the year from our perspective financially and operationally. Real big wins on the policy front. We have some terrific significant opportunities on the horizon to kind of continue to build on the successes you have seen us achieve already. And we're focused on closing the Calpine transaction in the second half of the year and really doing the work here to bring these 2 great companies together. Our company is really like no other, and our unique and strong foundation will create value for our owners year in and year out. So we produce robust cash flow and base earnings, which are protected by the nuclear PTC, which, as you've seen now, has tremendous bipartisan support. And I think we should reasonably expect the policy to be continued. Our earnings grow at 13% through the decade and any long-term deal we do would be additive to that growth as well as to our base earnings. We've had a track record of finding ways to improve our earnings. And just this update here, you're seeing what we're doing with the Cranes restart. We've done the deals with Meta and Microsoft. We've got the Calpine acquisition. I think we're pretty smart about finding those things and getting them done. Calpine will add $2 in EPS and $2 billion of free cash flow before growth starting next year. And Dan, of course, covered some of the cash benefits of Big Beautiful to us. We've got uprates that we're now through the engineering process on, and we're hoping to partner with customers to bring to the grid. And then finally, not only does the PTC provide protection for the nuclear fleet, but in a world where people are concerned about inflationary impacts, the PTC gives us some unique protection through higher PTC floors that are adjusted with higher inflation. So we feel like we have an unbelievable foundation for capturing value from all the opportunities we're seeing and for meeting the demand of the data economy and the demand of just growth here in America and capturing the value that you deserve as our owners. Our existing fleet can serve customers with clean, reliable energy that they need now for decades and decades to come. So an unbelievable platform. We think it's unmatched in the world in which you operate, and I'm excited to take your questions.

Operator: [Operator Instructions] And our first question will be coming from Steve Fleishman of Wolfe.

Steven Isaac Fleishman: Thanks for the updates. So I guess, first on the potential late inning data center deal. The -- you mentioned interconnection being kind of maybe a crux issue. Could you just talk to the time line for that specific one you've already had to go through? And then just generally, what are you seeing on PJM interconnection time lines from utilities? Like is this -- how long are they? Any thoughts there kind of high level as well?

Joseph Dominguez: Yes. I mean, Steve, just I'll do them a little -- well, I'll do them in order. I'm hoping we'll get that done this year. The one I was referring to. Obviously, the work is in other hands, but we're in close contact and coordination. In terms of some generic statement about how long it takes to interconnect. It's -- I think it's really impossible. I think everybody is recognizing getting closer to plants and big transmission infrastructure is the key to speeding up the process. And it depends on the particular projects. But as a general rule, what we laid out a year ago to all of you has come to pass as the kind of conventional wisdom in the business of how you do this most effectively. Thankfully, I've seen all the utilities be far more responsive to where we were a year ago. When we started this stuff out and exploring these opportunities, it wasn't uncommon to see studies and those sorts of processes take a year or more. And I think all of the utilities to their credit and to our appreciation of their work have figured out ways to expedite the engineering work and to go through the many requests they get in kind of a principled way. We've seen some utilities group requests to deal with them more quickly. But everybody seems to be responding to the need for speed. And so I'm glad to see that. But still, at the end of the day, it depends where you put this stuff, and you could get a good answer at one point and a bad answer at the other. What's important here is that the utilities transparently share that information so that the customers can understand the viability of different projects in different places. And I think they're doing that.

Steven Isaac Fleishman: And then just on this late inning one, is this a matter of kind of just timing and cost? Or is this kind of like any risk of it just not being viable?

Joseph Dominguez: Steve, I wouldn't be talking about it in the call if I didn't think it was a viable thing. So it's more of -- we just got to let them get through their process and figure out when the interconnection works. And then we'll tell you about it. But what I think folks on these calls tend to think is that we're sitting around debating dollars per megawatt hour for 8 or 9 months. There's a lot of complexity to these transactions. You've seen that in Microsoft. You've seen that in Meta. You've seen

that in the work that Talend has announced. And there's just a lot of process. And some of these things are within the control of our customer and ourselves. And when you're on the grid, you do need the involvement of other parties. And then making sure that the equipment that is needed for upgrades is available and all that stuff. So it ends up take a good bit of time as you could appreciate. But we feel we're in a pretty good spot.

Steven Isaac Fleishman: Okay. I've got 1 million PJM questions, but I'll let other people ask those. Just other questions just on new nuclear. Has your kind of strategy change there? Like are you more willing now to invest in new nuclear? And what would be the risk reward conditions for you to do that?

Joseph Dominguez: Yes, Steve, I don't think this is going to be like big step-change, changes approach for Constellation. I think it's more of an evolution. And with time, with the work that Bryan Hanson, and his team at nuclear put into studying the designs. And then not only just looking at the designs from a viability and operational standpoint, but kind of getting into the nitty-gritty of the cost line items for the different component parts to better understand how the thing is actually going to be manufactured, whether it's modular in the case of an SMR, where the equipment is coming from time lines, all of that stuff is that is work that we are literally refining every single day. And here's what I would say. As a general rule, I feel better with the passage of each week in terms of better understanding cost structures and the time to complete the work. And so I would say that our confidence is growing, but it's growing incrementally, not in terms of major step changes. And so I think you're going to -- I think it's quite viable. I think it's very, very real. I don't think that everybody's design is going to actually work and be commercially viable. But we've got a pretty good beat on who we think the winners are going to be. We've had a lot of conversations with companies to think about how Constellation given its unique access to real estate, it's operational expertise, it's construction expertise, all of those things could be brought to bear in aid of one of these companies. So there's -- I'm pretty pumped up about where this could go. But I'm not yet at a point where I could say on a call like this, what the cost is going to be and here's when we think we're going to be able to do it. Do I think we're going to get there? Yes, I do.

Operator: And our next question will be coming from Jeremy Tonet of JPMorgan Securities LLC.

Jeremy Bryan Tonet: Just wanted to pick up with the auction a little bit more, if I could. And you highlighted the clear benefits of demand response and the importance in the future going forward there. Just wondering if you might be able to comment a bit more on thoughts on the level that materialized in this past auction trends there and how you see this trending in the future? Or what would it take to get more?

Joseph Dominguez: Look, I think one of the things it's going to take to get more is that the ELCC change. So for folks on the call who don't follow this at a granular level. PJN creates an electric load carrying capacity for every resource that gets bid into the auction demand response combined cycle machines, nuclear plants. The star of the show, of course, is always nuclear plants because they're the strongest, most reliable units in the system. And everything else gets kind of a haircut from there. In the case of demand response going into this last auction, the ELCC, the carrying capacity for peak was set at less than 70%. From a financial perspective, that means that if you bid a megawatt of demand response, your price that you got back was haircutted by over 30%, right, from the go. So that limited a bit the amount of DR that participated in the market. This next auction, that goes up to over 90%. So the economics of bidding in for demand response will change over the course of this next auction. Their requirements will also change. Instead of having to be available for 18 hours, it will stretch to 24 hours. But one of the reasons that we got involved with this new company to develop these AI products is because we think there's a bear there. Is DR by itself going to be a solution? No, but it's got to be a unique and important contributor. And I say unique because it represents an incredible speed to deliver reliability. So as I applaud PJM for improving the ELCC. I wish they had done it for the last auction, but I'm not going to cry over that spilled milk, and I think it will deliver megawatts into the future.

Jeremy Bryan Tonet: Just continuing with the auction, if I could. We've seen state attention from governors and other stakeholders after the last auction here. I'm just wondering what you're expecting in terms of state-level action on PJM changes going forward here, whether that's incentivizing new supply or other reforms? And could there be opportunities for Constellation out of this?

Joseph Dominguez: I think there will be. Look, I think what Governor Hochul is doing in terms of the New York RFP for nuclear. I could see that transpiring in other places. I mentioned other states in

which we do business where new nuclear might make sense. And depending on the work that Bryan, and his team could do, I am quite sure we're going to not take 10 years to bring that stuff on. It will be done in a much more time-effective way. So I think that's real in the long run. But Jeremy, I think the one thing that states are going to have to evaluate, one of the points that we've championed is we've got a number of states that have required fossil fuel plants to leave the system by a certain date. And I don't think it should be a surprise to you that we would recommend that they rethink those requirements. And so we have advanced some ideas. I think there are some really good ideas out that would say, for example, if you scheduled to retire in 2030, maybe as a compromise, that generator starts ramping down from a historical baseline, their emissions in, call it, '27, '28, '29, so that they could bank emissions that could then allow them to operate between 2030 and a new set time to retire, right, so that they could buy their way into an extension by reducing air pollution in these interim years. We've heard that. We're supportive of that, makes complete sense to us to keep some of these generating facilities on to give the market time to respond. Now look, I know there's been a lot of discussion out there about monopoly build versus competitive market build. There's no timing advantage to having monopoly build. We're going to have to manage these next few years where the system is going to be tight. We're going to have to see DR come in. We're going to have to have states perhaps revisit some of the timing for the retirement of units, and we're going to have to extend that so that we manage this interim period. And then we're going to see 9 gigawatts come into the system through PJM's RRI. We are here not because of a failure of markets. We are here because of a failure of regulatory design that has now been addressed, but took way too long to address and cast a cloud of uncertainty over the market for too long. Again, I can't get on these calls and cry about spilled milk. But if somebody is out there saying, oh, this is the failure of competitive markets or this is all the fault of the hyperscalers. I'm just calling it a bunch of hooey. That's just not true.

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

David Keith Arcaro: I was wondering if you could touch on the direction of pricing in discussions you're having on some of these data center deals. We've seen, obviously, with the capacity auction prints coming in, higher, and it does seem like conversations and demand has been fairly elevated. What are you seeing in terms of some of these most recent discussions with regard to pricing versus previous?

Joseph Dominguez: Yes, David, I'm not going to talk about -- well, first of all, David, thanks for being on the call. I'm not going to talk about specific deals because I don't want to reference a particular transaction from a timing standpoint. What I think we're all seeing is the market is getting more scarce, the price of capacity is becoming more scarce. The availability of other resources in light of what happened with Big Beautiful on renewables. And in light of the FEOC limitations for things like storage, I think, are going to pressure those elements of supply. We talked in our last call about the cost of combined cycle machines going up. So all of these things as a grouping and of course, the consumption of the available megawatts is going to make the things that exist more scarce and all things considered, that should mean that prices will continue to rise. Stated differently, what I would say to customers is, this is a good opportunity to begin having those discussions.

David Keith Arcaro: Great. Appreciate that. And then how are you seeing the -- you've got a couple of different maybe structures or offerings here. How are you seeing the balance between front of the meter virtual versus co-located on-site data centers? How is the interest in -- maybe in the colocation side of things? Is there a common structure for some of the deals that are moving forward?

Joseph Dominguez: Yes. Let me change the labeling a little bit here so that I can precisely answer your question. When I think of co-locating, I think, of approximately located. I think just about everything is going to be approximately -- that is of size, right? It's going to be approximately located to major power elements, whether it be the power plant or major elements of the transmission grid, which again, are generally near power plants. So I think the question you're getting to is, Joe, is that going to be front of the meter or behind the meter going to kind of this broader issue that has been in front of FERC now for some time. I don't think anyone right now has given up hope that FERC is going to address and provide flexibility for true behind-the-meter configurations. And I happen to be with the President in Pittsburgh during the summit that Senator McCormick organized, which is really a wonderful event. And one can't hear the President talk without coming to the conclusion that the President very strongly feels that things that are behind the meter and that generation built specifically for data centers has got to be a

part of the solution set that is available to customers. But right now, listen, given the ambiguity on this issue at FERC and what's going on in terms of the selection and appointment of FERC leadership, we don't have an answer to that just yet. So we continue to think about it as a longer-term option, but what we're working on right now is all front of the meter. If that, David, is kind of what you were getting at.

David Keith Arcaro: Yes. No, that's helpful. I was curious if co-locating and kind of offering in your own, whether it's land, maybe transmission interconnection if that could add value versus something that's a little bit more, I guess, maybe more distant or virtual as I was thinking the Clinton deal was?

Joseph Dominguez: Yes. Look, I think we could do both, but I think the land around the plants because of, again, the proximity to these major elements is going to be enormously valuable. And we've talked about that from the beginning. There's no change in my view. My conviction around that has been nothing but strengthened. And so I think that's going to be the way this thing plays out. But the thing I was trying to bring out on the call in my prepared remarks was that post Calpine, what we have is the opportunity to be approximately located in the major element there might be a gas plant and associated transmission. But because of Constellation's unique capabilities, the ownership of this nuclear fleet and our commercial ability, right, we could take that interconnection, and we could couple that with a clean energy product for 24/7 clean energy, which not only gives the customer the sustainability value that they want, and we definitely see that desire for sustainability. But the other thing they want is they want certainty on pricing for a 20-year deal. And that's pretty hard to do with the gas plant because you don't know the input price of the natural gas. And so it's always going to be indexed to a certain extent. And it's very difficult to do because you don't know what future environmental policies might mean to the cost of CO2. So typically, when you're looking at a long-term deal at a gas plant, you're saying, "Hey, it's going to be indexed to something on the supply side or we need a long-term supply arrangement." You need to deal with the firmness of that supply arrangement. And then you have to have a conversation with the customer around what happens if a carbon tax or a regional program comes into play or something else happens. The beauty of having the nuclear metawatts is, as you've seen, we have no trouble giving somebody a price sheet for clean firm energy that's going to be here for decades to come. That's where the pairing works.

Operator: And our next question will be coming from Sophie Karp of KBCM.

Sophie Ksenia Karp: I have a question about, I guess, how utilities respond to the interconnection requests and proliferation of those requests. So what -- and how that might impact you by extension. So I guess what we see is that utilities are increasingly requiring longer-term contracts, some take-or-pay features in those contracts or guaranteed returns and features like that. And from what we're hearing a lot of data center customers are finding these exceedingly onerous, right? From your standpoint, could that have implications for your operation where you operate and maybe that -- maybe could you see data center costumers migrating away from some territories that are perceived as more difficult towards more vertically integrated markets where it might be easier for them to operate? Like what is your view on that?

Joseph Dominguez: Look, I think the thing that's going on in the American politics and touching on the American regulatory compact, whether that be in vertically integrated markets or in competitive markets is, it's kind of this desire to visit upon the data centers, all of the costs associated with increases in supply-demand fundamentals. And that's kind of why I talked about what I did in the prepared remarks to dispel what I think is an inaccurate narrative. But whether that's in a vertically integrated market, we certainly see tariffs that are being created in vertically integrated markets that appear very onerous to data center developers. And each state whether it's an integrated monopoly model or a competitive market, I think, is going to have some choices that they make here that will, in effect, drive the development to particular regions that are more friendly. I've seen Pennsylvania, for example, deliberately be quite friendly or then begin deliberately be quite friendly, Northern Virginia, deliberately be quite friendly to the data economy. We'll watch how that unfolds. But there -- the kind of -- from my perspective, the kind of nonsensical aspect of this is that if you are in a region where you're joining state is building data centers, then whatever is going to occur to supply-demand fundamentals as a result of that growth is going to happen to your state even if you abolish data centers in your state. The grid, as we all know, doesn't stop at state borders. We don't have 50 different electrical islands. We're all related. And so supply and demand affects all of us. And I think most informed governors and

policymakers have taken the view that we have to mitigate these impacts to the extent possible, but artificially trying to suppress data center development in order to suppress costs would be as effective as, oh, I don't know, the State of New Jersey trying to affect interstate milk prices by directing residents to no longer drink milk. It just doesn't work. And so you see a lot of activity in that area, but it just -- I think rationality will play out. We have to navigate what is going to be a tougher few years. We've made it tougher by having a bad market design to begin with that had artificially low prices, but we're all adults, and we understand that, that has to be navigated in a way that works for American families and Constellation is doing its part to do it.

Sophie Ksenia Karp: And one quick one, if I may. A lot has been said about the nuclear credits in the OBBB, but are there any other provisions there that you can discuss that may indirectly benefit you maybe related to depreciation and something that can spur growth that maybe -- is the second derivative could benefit your business as well?

Joseph Dominguez: Well, the bonus depreciation clearly was a big impact. Dan, you covered that a bit. I think you could quantify that.

Daniel L. Eggers: Yes. So we expect bonus depreciation to be between bonus and R&D; expensing $200 million to $300 million favorable per year out the horizon. Calpine should be added to that. We'll come back to you on that once the deal closes. Obviously, certainty on the federal statuary tax rate provided by the bill also of value, 45U-45Y Credit is important and a 10% adder on 45Y for nuclear communities is another incremental opportunity. Those are from our seats, the biggest ones from what we're focused on today.

Operator: And I would now like to turn the call back to Joe for closing remarks.

Joseph Dominguez: Well, look, as always, thanks for your time this morning. Again, I know it's a busy time for everybody. I hope we answered your questions, and we thought it was -- the second quarter was the end here of a wonderful first half for us in 2025. We look forward to continuing to execute for our owners and for all of our stakeholders. So until the next time, be well.

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