Lisa
Conference Operator

Good day and thank you for standing by. Welcome to the Talent Energy Corporation third quarter 2026 earnings conference call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there'll be a question and answer session. To ask a question during the session, you'll need to press star 11 on your telephone. You will then hear an automated message advising your hand is raised. To withdraw your question, please press star 11 again. Please be advised that today's conference is being recorded. I would now like to turn the conference over to your speaker for today, Bill Appicelli. Please go ahead.

Bill Appicelli / Cole Muller
Investor Relations / Chief Financial Officer, Talen Energy

Thank you, Lisa. Welcome to Talent Energy's third quarter 2026 conference call. Speaking today are Chief Executive Officer Mack McFarland, President Terry Nutt, and Chief Financial Officer Cole Muller. They are joined by other talent senior executives to address questions during the second part of today's call as necessary. We issued our earnings release this morning along with the presentation, all of which can be found on the investor relations section of TALEN's website, talenenergy.com. Today, we are making some forward-looking statements based on current expectations and assumptions. Actual results could differ due to risk factors and other considerations described in our financial disclosures and other SEC filings. Today's discussion also includes references to certain non-GAAP financial measures, We have provided information reconciling our non-GAAP measures to the most directly comparable GAAP measures in our earnings release in the appendix of our presentation. With that, I will turn the call over to Mac.

Mac McFarland
Chief Executive Officer, Talen Energy

Thanks, Bill. Good morning, everyone, and thank you for joining us. Before we get into the quarterly results, I want to spend a few minutes on what we're seeing in the market, how we're thinking about the business, and a few topics on investors' minds. Talent is in a fundamentally stronger position today than at any point since we began rebuilding this company. Our financial outlook continues to improve, our cash flows are becoming more durable, and we have more ways to create value than ever before. We own advantaged assets in advantaged locations. In markets where demand is growing, supply remains constrained, and the value of our reliable generation continues to increase. These assets would be extraordinarily difficult, expensive, and time consuming to replicate today. Across PJM, we've seen a significant move in forward power prices and spark spreads this year. I know there's a debate about whether those levels are sustainable. Our view is straightforward. We don't expect markets to move in a straight line. There will be volatility, but we don't believe this is simply another commodity cycle. The underlying fundamentals have changed. Demand is growing, new supply is difficult and expensive to build, and the timeline for bringing new generation online continues to stretch. The demand is here, the supply isn't, and we already own the assets the market needs. Now basis matters, congestion matters, and how we hedge and manage our portfolio matters. Our

commercial team remains focused on managing those exposures and converting stronger market conditions into realized financial performance. We're seeing that translate directly into our financial outlook. Today, we're providing 2027 guidance, updating our 28 outlook, and initiating our 2029 outlook. Focusing on the 29 outlook, our adjusted free cash flow is in the range of $56 to $60 per share. That outlook assumes no additional large load transactions. That's the cash generating power of the business we've built, supported by our capital allocation strategy. Additional large load contracting and powered land monetization represent upside. While the magnitude of the cash flow is important, so is its quality. Our objective is to generate more durable cash flow and grow that cash flow on a per share basis. That's what the talent flywheel is all about. Strong assets and attractive markets generate significant cash flow. That gives us the flexibility to make high return investments, pursue attractive long-term contracts, optimize our portfolio, and return capital to shareholders, all while maintaining our balance sheet discipline. Contracting can lock in attractive economics and reduce risk. Strategic investments can expand our earning space. And disciplined share repurchases can drive further growth and free cash flow per share. We're not dependent on any single lever to create value. We have several and they reinforce one another. That's the power of the flywheel and it's working. which brings me to large load contracting and powered land monetization. I know there's a lot of interest in when we're going to announce our next data center transaction, so let me address that directly. We're actively engaged with customers across our footprint, evaluating a variety of commercial structures and working to bring additional transactions to fruition. We have existing generation infrastructure, interconnections, and strategically located land. Those are all real advantages for customers trying to solve increasingly difficult power challenges. Some need speed to power. Some need reliability. Some need long-term price certainty. Increasingly, they need all three. We can provide solutions ranging from long-term power contracts to powered land development and monetization. We don't have to build a position in these markets. We already have one. And we're going to be disciplined about how we monetize it. We are focused on creating value, not headlines. The objective is to lock in attractive economics, increase the durability of our cash flows, and create lasting value for our shareholders. We know what we own, we know what it's worth, and we're not going to compromise that value to meet someone else's timeline. That's not a lack of urgency, that's just discipline. Every attractive transaction we execute creates an opportunity to build on an already compelling financial outlook. We're negotiating from a position of strength, not necessity, and that matters. That same conviction is reflected in our capital allocation decisions. The $1.5 billion ASR is a tangible example. We believe in the value of the business, and the ASR puts capital behind that conviction. Our cash generation gives us the flexibility to invest in the business and return capital to shareholders. We can advance large load contracting, monetize powered land, optimize our portfolio, and repurchase shares. These opportunities aren't mutually exclusive. We're focused on maximizing value per share, period. All of this is happening against the backdrop of a continued regulatory and market design reform in PJM. There's considerable discussion around large load interconnections, reliability requirements, capacity market design, price caps, and how the cost of serving new demand should be allocated. We support reforms that facilitate load growth, maintain reliability, protect existing customers from inappropriate cost shifts, and provide the economic incentives necessary to retain and build new generation. But I'd make two points. First, the changing market rules doesn't change the underlying physics of the system. PJM needs more reliable generation to meet growing demand. That generation takes time and capital to develop, and the existing fleet needs to be maintained economically viable. Whatever market structure ultimately emerges has to recognize those realities. You can't regulate your way out of a physical supply shortage. You can change how the market compensates generation. You can't change the fact that the system needs it. We're not waiting for every regulatory issue to be resolved before moving our business forward. We're continuing to engage with customers, advance development opportunities, and evaluate commercial structures in parallel with the regulatory process. Because we have multiple ways to serve large load customers, we believe we're well positioned to adapt as those rules evolve. Regulatory uncertainty may change the path. It doesn't change the fundamental need for power or the value of the assets we own. Capacity market design matters and auction outcomes matter, and we'll continue to engage constructively in that process. So let me close

with this. We have attractive market fundamentals, an advantage portfolio, and a strategy focused on generating increasingly durable cash flows and growing adjusted free cash flow per share. And we're not done. We're working to capture additional value through large load contracting, optimizing our portfolio, and returning capital to shareholders. We've built a company with multiple paths to create value and the financial strength to pursue them. The strategy is working, the flywheel is working, and the opportunity in front of Talon is substantial. As I look ahead to the leadership transition, I have tremendous confidence in Talon's future. Terry and the entire management team know these assets, understand these markets, and have the experience and discipline to take this business forward. One of the things that I'm most proud of is that we built a company whose success isn't dependent on any one individual. We have the strategy, the culture, and the leadership team to keep moving forward and creating value. I believe the best days for talent are still ahead of us. And with that, I'll turn the call over to Terry.

Terry Nutt

President, Talen Energy

Thank you, Matt. And good morning, everyone. Turning to our key highlights for the quarter. Our plans performed well during periods of strong demand, and I'm pleased to report that we delivered 669 million of adjusted EBITDA and 433 million of adjusted free cash flow in the quarter. In September, we announced an increase in our share repurchase program to $3 billion through the end of 2028, including the 1.5 billion accelerated share repurchase previously announced. And when that transaction is completed, We expect to have repurchased approximately one-third of our shares outstanding since emergence just three years ago. That's a significant return of capital and a clear demonstration of our commitment to creating value for our shareholders. PJM fundamentals remain strong. We saw continued improvement in forward spark spreads across ADHub and PPL zones, where we have significant generation exposure. During the quarter, strong demand tightening reserve margins and elevated outages across PGM drove increased run hours across our fleet. The market increasingly needs reliable generation. We own it, and we're seeing that value reflected in both our operating performance and our financial outlook. With nine months behind us, we're reaffirming our 2026 guidance and introducing formal 2027 guidance. We're also increasing our 2028 outlook and initiating our 2029 outlook. We expect to generate approximately $6 billion of cumulative adjusted free cash flow through 2029. And with continued disciplined capital allocation, we expect adjusted free cash flow per share to reach $56 to $60 per share in 2029, representing nearly a 30% annual growth rate from our original 2026 base. We have multiple opportunities to create additional value beyond that. The strategy is working and we're executing. Turning to slide three. For the nine month ended September 30th, 2026, we are reporting $1.516 billion of adjusted EBITDA and 995 million of adjusted free cash flow. Numbers that validate the continued growth trajectory over the past several years. Turning to our operational metrics. Our fleet achieved strong levels of safety and reliability during the year. including during the record setting demand that PJM experienced during the third quarter. We generated approximately 53 terawatt hours of power with a capacity factor of 64% so far this year. Our intermediate dispatch assets continue to have increased run time to support the higher demand in PJM. We took time in September and October during the seasonal outage period for additional maintenance to ensure the fleet is ready for the winter. We continue to make investments in our assets to ensure that our fleet meets the level of reliability and performance standards we expect. This will continue to be a focus for us through the coming years, especially as the market backdrop continues to point to tightening supply and demand for several years to come. Safety remains our first priority across the fleet and our year-to-date recordable incident rate was 0.31. I would like to thank the men and women of Talon who continue to demonstrate strong operational and safety performance. The team's commitment to operate in a safe and reliable manner is an important part of Talon's value proposition. Turning to slide four, we have seen a continued appreciation in the forward curves through the next several years. While not as pronounced as the moves in PJ and West Hub, 2028 AD hub and

PPL spark spreads rose 19% and 11% respectively over the quarter. As you can see from the graph on the bottom right hand side of the slide. On a year to date basis, 2028 AD hub and PPL zone spark spreads both increased by nearly 30%. Our views on PPL zonal basis remain unchanged. We continue to see this as an upside lever to our financial outlook as the combination of load ramping in the zone and completion of transmission network upgrades drive a narrowing of the zonal spread over time. In the meantime, our commercial team continues to deploy a hedging strategy around zonal basis that mitigates short and near-term risk associated with price volatility. While larger macro factors like transmission build-out, line upgrades, and load growth within the zones will impact the longer-term outlook. Moving to slide five. The power demand outlook continues to remain strong. The two charts on the top of the slide show cumulative load additions for AEP and PPL zones. By 2031, AEP is estimated to have an additional 31 gigawatts of contracted large load additions. And PPL will have an additional 10.7 gigawatts. In the PPL zone, this includes six gigawatts of data centers currently under construction. We have assets and locations that are able to support the coming increase in load. The increase in demand is illustrated in the lower left of the slide, where you can see the Q3 average electricity demand in PJM. 2026 demand was significantly above both 2025 and the five-year average. Increased demand and higher prices result in higher runtimes for our intermediate fleet, as you can see on the bottom right. Compared to Q3 2025, the capacity factor for our intermediate fleet increased from approximately 36% to 52%. This continues the trend that we have seen over the past several years. All of this validates our driving thesis that large load growth is here and more is coming. It's notable demand and the desire for more long-term certainty has not been slowed by regulatory rulings as shown by recent transactions in the market. On the regulatory front, we view the Pennsylvania Executive Order as setting balanced standards for project development. And we are working with stakeholders to ensure future projects have a fair and measured approach. We have a track record of working well with the state as evidenced by the Susquehanna AWS transaction and intend to continue working to bring large loads and the related economic benefits to Pennsylvania. In addition, recent regulatory progress from PJM and FERC has been helpful, and we continue to see opportunities in the bilateral market as counterparties look for energy and capacity. Turning now to our long-term contracting solutions. As Mack noted, we continue to work with customers to find the right solutions for their needs. We believe these offerings will continue to translate into value-enhancing contracts that leverage our assets. We have six gigawatts of base load generation length across our portfolio that can support customers who desire price certainty and or physical capacity commitments. We have four gigawatts of powered land sites with significant speed to power advantages. These sites can be grid connected in the 2028, 2029 window and continue to advance. Sites with this timing and scale are very attractive to hyperscalers and large developers. We also have a three-plus gigawatt pipeline of new capacity projects under development, including uprates, batteries, and peakers. Some customers specifically desire these types of projects to help either meet their ratepayer protection pledge or other corporate commitments. Additionally, Talon can offer both existing generation, such as the 300 megawatts of uncontracted nuclear power from Susquehanna, or one of the lowest carbon intensity combined cycle portfolios in the PJM fleet. as well as new capacity options like multiple battery projects under development. With that, I'll turn the call over to Cole to discuss our financial performance and outlook.

Bill Appicelli / Cole Muller

Investor Relations / Chief Financial Officer, Talen Energy

Thanks, Terry, and good morning. Terry described how stronger demand is driving higher dispatch across our fleet and outlined the commercial opportunities ahead. And I'll focus on how these dynamics translate into cash generation, our financial outlook, and value per share. On slide seven, third quarter adjusted EBITDA was $669 million, and adjusted free cash flow was $433 million, nearly double what it was for the same periods just a year ago. Year-over-year improvement reflects contributions from Freedom and Guernsey and, beginning fully this quarter, Lawrenceburg, Waterford, and Darby. We also benefited from

higher settled power prices, greater generation volumes, and increased cleared capacity revenues. Realized hedge results partially offset these gains, while acquisition financing increased cash interest payments. Our expanded fleet and stronger market conditions are translating into higher cash generation. That is the financial foundation for the per share growth Mac described earlier. On slide eight, we are reaffirming our 2026 guidance bid points of $2.125 billion in adjusted EBITDA and $1.275 billion in adjusted free cash flow. And we have narrowed each range by $25 million on either side. We are also introducing our 2027 guidance, adjusted EBITDA with a $2.675 billion midpoint and adjusted free cash flow with a $1.625 billion midpoint. At these midpoints, this represents more than 25% growth over the 2026 adjusted EBITDA and adjusted free cash flow. This guidance reflects our larger portfolio and September 30th forward curves and that we are approximately 70% hedged for expected 2027 generation. For 2028, we are approximately 35% hedged and in 2029, we remain largely open except for the impact of the AWS contract. Our commercial desk continues to manage zonal basis exposure as we approach the delivery year. As Mac emphasized, the investment case does not depend on another large load agreement. This guidance is grounded in the portfolio that we own today. Please see updated modeling assumptions and hedge disclosures in the appendix for more detail. Slide nine goes to our central measure of value creation, adjusted free cash flow per share. The bar shading distinguishes underlying cash generation from the incremental per share effect of future repurchases. Holding our share count constant at approximately 42.9 million shares following completion of the ASR, our base guidance is approximately $38 per share of adjusted free cash flow in 2027, and our 2028 outlook has a midpoint of $48 per share. This 2028 base outlook has increased approximately 20% since just last quarter. In 2029, we introduced an outlook range of $46 to $50 per share. We provide a range given we are still three years out. Our 2029 range midpoint is flat to 2028, overcoming Brunner Island's shift to gas only and the backwardation in current forward curves, which declined by more than $2 per megawatt hour year over year. We mark our outlook to these curves rather than assuming a recovery of power prices. Applying our capital allocation assumptions, including repurchases funded with roughly 70% of annual adjusted free cash flow, our 2028 outlook grows to $53 per share, and 2029 increases to a range of $56 to $60 per share. This more than doubles our 2026 baseline of $26.60 per share outlined last quarter. At today's share price, our free cash flow yield is approximately 17% when looking out to 2029. Importantly, this outlook is just executing on the base business, and does not require us to capture additional opportunities in front of us. These incremental opportunities represent upside to this outlook and that is the distinction Mac made earlier. The base outlook can stand on its own with new contracting and powered land opportunities providing potential upside. Slide 10 shows the magnitude of these potential upside levers on a free cash flow per share basis. The M&A and new data center contract upsides are illustrative impacts based on our recently announced transactions. accelerating the AWS campus load ramp by one year without approximately $2 of incremental adjusted free cash flow per share. We remain encouraged by the pace of development and see potential for the load ramp to exceed the existing contractual schedule, perhaps by multiple years. Turning to the market sensitivities, our outlook incorporates backward-oriented forward curves, as I mentioned earlier. A move to flat curves would represent approximately $2 to $3 per share of additional adjusted free cash flow with further potential if curves move contango. These are upside sensitivities, not assumptions embedded in our outlook. This also holds true for zonal basis. Every $5 per megawatt hour improvement in zonal basis across the portfolio corresponds to approximately $5 of annual adjusted free cash flow per share. These are illustrative and depends on transaction terms, timing, and execution, but illustrates the additional growth potential of the business. Our test for every opportunity remains the same. Does it improve risk-adjusted value per share relative to the alternative? On slide 11, we show how we're putting our capital discipline to work. In September, we expanded our share repurchase authorization to $3 billion through December, 2028, including the announced $1.5 billion accelerated share repurchase. The ASR is supported by our capacity monetization transaction, which brings forward contracted cash flows through May, 2029. Approximately 3.8 million shares were retired upfront and we expect to complete the ASR by the end of the first quarter of 2027 with a final share count subject to the discounted VWAP over the duration of the program. We continue to target returning approximately 70% of

adjusted free cash flow to shareholders. Repurchasing our own shares remains the benchmark against which we evaluate other uses of capital, not a reason to pass on investments that offer superior risk-adjusted returns. Across our outlook through 2029, we expect to generate approximately $6 billion of adjusted free cash flow. $6 billion to enable significant value creation opportunities for shareholders over the next few years. At our targeted allocation rate, that supports more than $4 billion of aggregate repurchases, including the ASR, while retaining flexibility for strategic investments and balance sheet priorities. Balance sheet strength remains core to our framework, and we continue to target net leverage of 3.5 times over the long term. Following the capacity monetization, we expect this obligation to amortize between June 2027 through May 29. Together with expected growth in the business, this supports our objective of returning to approximately 3.5 times net leverage in the second half of 2027. Slide 12 illustrates another part of the flywheel, the opportunity to improve cash flow durability through long-term contracting while retaining participation in attractive power markets. The objective is not simply to contract more megawatts, it is to lock in attractive risk-adjusted economics. The existing AWS agreement continues to ramp towards its full contracted level, which gets us to approximately 35% contracted gross margin. Additional contracts could increase the contracted portion of gross margin and reduce reliance on future market conditions. We show the impact of another two gigawatts of premium data center deals, which would take us to 60% plus contracted, with potential to meaningfully go further. These incremental opportunities are illustrative and not included in our base outlook. The overall combination, higher underlying cash generation, disciplined capital allocation and opportunities to contract attractive economics is how we intend to compound value per share. With that, I'll turn it back to Mac.

Mac McFarland
Chief Executive Officer, Talen Energy

Great. Thanks, Cole. And we're going to turn it back to the operator to open the line for questions at this point.

Lisa
Conference Operator

Thank you. Thank you. As a reminder, if you would like to ask a question, please press star one on your telephone. You'll hear that automated message advising your hand is raised. We also ask that you please Wait for your name and company to be announced before proceeding with your question. Also, to limit yourself to one question and one follow-up. One moment while we compile the Q&A roster. Our first question today will be coming from the line of Char Perez of Wells Fargo. Please go ahead. Hey, guys. Good morning.

Char Perez
Analyst, Wells Fargo

Morning, Char. Morning, morning. So, Mac, Terry, just on the negative zonal basis in PJM, I mean, we do continue to see even further widening, especially after you guys marked on September 30th. I guess, what are you assuming is the normalization path there, and has that kind of been incorporated into the free cash flow figures for 27 and 28? Thanks.

Terry Nutt
President, Talen Energy

Yeah, Char, let me start on this, and then I'll turn it over to Cole to give you some details of what's in our numbers. We continue to believe that the zonal basis is going to narrow over the next couple of years. And we think there's two primary drivers to that. One, obviously, we see load growing inside of PPL zone. We can see that very clearly with respect to the AWS Susquehanna campus that's going up today, as well as other projects in the zone. And then secondly, there's a significant amount of transmission upgrade work that's getting done. That work started at the end of last year and continues into this year and goes into goes into the next year. So we're confident that that basis will narrow. With respect to the numbers, let me turn it over to Cole, and he can give you some details on what's included.

Bill Appicelli / Cole Muller
Investor Relations / Chief Financial Officer, Talen Energy

Thanks, Terry, and morning, Char. Morning. Yeah, so in terms of the impact for 27-28, as I said earlier, our free cash flow guidance and outlook looks at just whatever the marks are. So for basis, we mark to our zonal pricing for all of our assets, and so That's already incorporated, you know, that widening basis as of 930, right? And so again, all these numbers are reflective of the 930 curve. And just as a reminder, as I said in the script, we're hedged 70% in 27 and 35% in 28. And our commercial desk is always actively working to minimize any exposure that we have on the zonal basis.

Char Perez
Analyst, Wells Fargo

Got it. Okay, perfect. And then just on the four gigawatts opportunity, I know you noted that powered land is kind of the higher value solution that you are marketing. I guess what's the right benchmark in terms of return on invested capital, especially relative to new build options and off-grid solutions? So maybe another way to ask is how much margin above current market prices, which are obviously up significantly, does that solution require and is it still kind of competitive? Thanks.

Mac McFarland
Chief Executive Officer, Talen Energy

Hey, Shar. Good morning. It's Mac. Look, I think that the monetization of powered land for us is a means to an end. The end being long-term capacity and energy contracts and how we service those off of a combination, what sometimes we describe as a hybrid model, which is bringing some new capacity from these additions that we have in a pipeline or selling our existing capacity and energy in combo or discreetly against those powered land opportunities. So we're not necessarily, obviously, if we invest in acquiring land, we want to get a fair return for that acquisition, but that is a means to an end. We're not looking to create premium out of that. What we're looking to do is facilitate the ability to locate data centers principally in the PPL zone for a lot of those that we're advancing. And so our goal is to take those, combine them into a transaction with a long-term PPA, if you will, and create value off of our existing fleet plus potential capacity additions in a hybrid model. So when we think about what a fair return for that hold is, First of all, we're not investing a lot of dollars in that. Let's just be clear. It's not like we're going out and investing hundreds of millions of dollars in these assets or billions of dollars in these assets. We're acquiring land that we hope to just

get a fair sort of, you know, equity type return on for the whole period. So I hope that answers your question. If you have a follow up, please let us know.

Char Perez
Analyst, Wells Fargo

No, no, that actually did touch it. I appreciate it, guys. That's all I had. And terrific, terrific execution. Thanks.

Lisa
Conference Operator

Thank you. One moment for the next question. Our next question is coming from the line of Matt Pettit of Barclays. Your line is open.

Nick Campanella
Analyst, Barclays

Hey, it's actually Nick Campanella on from that. Thanks for the time. Hey, maybe just to ducktail off that last question, just With the end of the bilateral contracting window now being in February, I believe, can you just talk about your interest in participating that as an avenue and just given the fact that you're talking about you can get people connected as soon as 28 now. I'm just curious, why would that not be the window to do deals now and net down this RBA requirement? Are there reasons we could be waiting past February? Could you talk to that a little? Thanks.

Bill Appicelli / Cole Muller
Investor Relations / Chief Financial Officer, Talen Energy

Sure, Nick. It's Cole. Good morning. As we've said before, we're not beholden to a specific timeline for our deals. And so obviously the RVP window has been extended here. So as deals get done between now and when that options run, of course, there may be some additional netting. But we don't see the RVP timing as kind of driving hyperscaler decisions and our timeline necessarily. If deals get done within that time frame, great. We're obviously working on a bunch of opportunities as Mac and Terry outlined. And when we've got something to talk about, we'll talk about it.

Nick Campanella
Analyst, Barclays

Okay, great. And then maybe just with the BRA still on track for December, seemingly this is the last one that's capped, I believe, just what are stakeholders or yourselves advocating for as we kind of look forward to the spring in terms of keeping the cap or reevaluating this? Thank you.

Terry Nutt
President, Talen Energy

Hey, Nick, I'll respond to that. Obviously, we've got the December auction coming up. You know, parameters are out there. I think most everybody's got a similar view that that's going to clear at a pretty high level all the way up to the cap at the end of the day. I think when we look towards the May auction, a couple of things from our vantage point. One, we need to make sure that auctions continue to get executed on time, continue to move forward. I think that's one of the challenges that the market experienced several years ago when we got into the delay is we had a delay and then we had a price clear that was fairly high. There's discussion out there, rumors that maybe there's another price cap in the spring. We'll obviously participate in that discussion as it comes around, but our biggest drive is we need to continue to have the auctions execute because at the end of the day, we think that's a primary function of the market is to have durability and certainty around those capacity revenues because that's ultimately going to be what helps finance new build and new generation.

Nick Campanella
Analyst, Barclays

Thanks for the thoughts.

Lisa
Conference Operator

Thank you. One moment, please, for the next question. Our next question is coming from the line of Michael Sullivan of Wolf. Please go ahead.

Michael Sullivan
Analyst, Wolfe Research

Hey, good morning. Hey, Terry, on slide 10, when you list out the incremental value drivers, what would you say is your highest conviction one of being realized over the kind of near medium term?

Bill Appicelli / Cole Muller
Investor Relations / Chief Financial Officer, Talen Energy

Michael, Cole, you know, great question. Look, we outlined levers there that we think they're all great opportunities for them or else we wouldn't be talking about them. Obviously, some of them we control more than others. You know, the bottom three for sure, you know, depending on other parties, right, the market on the bottom two on sparks and zonal basis, data center build out, which we don't control, but we, as I said in the script, we see great progress. It continues to progress more than linear. I wish folks could get out there and see the site. So that's an upside that we see that's tangible, but again, we don't control it. Obviously, deals, the top two, M&A and data center deals. Sorry, I got them flipped, the second and third one, but you get the point. Data center deals and M&A, they're stuff we can control somewhat, but obviously depend on good deals and willing counterparties. So all are good upsides. I know I'm not answering your question directly, but we see them all as potential here.

Michael Sullivan
Analyst, Wolfe Research

Okay, great. Now, that makes sense. And just to follow up on the acceleration of the AWS contract, I think you've got here going to 480 megawatts in the 28 guide. What is embedded in the 29 outlook?

Bill Appicelli / Cole Muller
Investor Relations / Chief Financial Officer, Talen Energy

Yeah, so... We don't embed any acceleration within the range. Obviously, as we accelerate and as we outline for every year of acceleration, you can see a couple of dollars per share increase. So to get to the higher end of the range in 29 for sure, some of that acceleration could be helpful. But to get into that range, we're not dependent on any acceleration.

Mac McFarland
Chief Executive Officer, Talen Energy

It's the minimum commits, basically, of the contract, Michael.

Michael Sullivan
Analyst, Wolfe Research

Okay, so I just wanted to make sure, because I think there's a step function change there, if I remember correctly, like the original slides had 840 to 1200 megawatts. So is 840 the right number to use there, basically?

Bill Appicelli / Cole Muller
Investor Relations / Chief Financial Officer, Talen Energy

Yes. So the PPA does start to ramp faster once you get out to 29 because of the revamped deal that we did. And so they start moving from 120 megawatt increments to 360. So the minimum commits out in 29, as we outlined a little over a year ago, do ramp to 840 in 2029.

Michael Sullivan
Analyst, Wolfe Research

Okay, perfect. Thank you very much. Thanks, Michael.

Lisa
Conference Operator

Thank you. One moment for the next question. Our question will be coming from the line of Jeremy Tonin of JPMorgan Securities. Please go ahead.

Jeremy Tonin
Analyst, JPMorgan Securities

Hi, good morning.

Terry Nutt
President, Talen Energy

Morning, Jeremy.

Jeremy Tonin
Analyst, JPMorgan Securities

Just wanted to come back to Powerland, if I could, and specifically for Time to Power. Just wondering if you could talk a bit, I guess, about the different types of solutions for resource there, batteries, solar, fuel cell, Small gen assets. Where do you see, I guess, the best opportunities right now when focused on speed?

Terry Nutt
President, Talen Energy

Yeah, Jeremy, I'll start and then Mac and Cole can chime in. I think first of all, the interconnection to the grid in the 2028 timeframe is really key for a number of customers, right? When you talk about large scale reliability and what they want, getting that interconnection and getting it in a short amount of time is one of the the highest priorities when we talk to hyperscalers and other developers. The additional capacity resource whether as I mentioned in the script to meet their rate payer protection commitment or other sort of corporate commitments, it varies. There's some customers who are really keen on battery technology and storage technology and that has been a topic of conversation that we've had with a number of counter parties. and then some are more interested in maybe a combination. I think one of the interesting things that we've noted and we'll reiterate here is at the end of the day, the solution matters, but the cost also matters. I think that's been a misnomer in the market is that these hyperscalers or some of these large entities will pay any price whatsoever. You take a look at some of the inflation on large scale generation technology and it's been pretty sizable the last several years. And so we still think cost matters because ultimately impacts what they pay for and what the affordability is. And so those solutions make a ton of sense as we're talking to customers.

Mac McFarland
Chief Executive Officer, Talen Energy

Hey Jeremy, it's Mac. Let me tack on there a little bit. First of all, I think that the focus over the past year has been on land opportunities or data center sites that could be electrified 27, 28. And I think 29 is becoming the new 28 as we roll into next year. And so I think you'll see a focus and we sit squarely with our land opportunities in that sort of 29 development timeframe, which is, you know, what we've been trying to do in the background for the past years is to advance those. I think the other thing that sometimes, and I'll throw this little nugget out there, I think one of the things that's a growing trend isn't that it's just new capacity additions in addition to existing contracting for capacity energy off of existing assets, but also the opportunity to look at curtailment in terms of a PPA off of existing that can then satisfy the requirements. Because if you think about

it, if you can curtail a.k.a. demand response, you can provide effectively something that looks like a peaker or a battery. It's just by having net negative load at that time or zero load at that time, providing that resource that then satisfies the hours that you're effectively developing a reserve margin across all of PJM4. I think that's going to become a growing trend. and I think that's going to become the other growing trend is that 29 is going to be the new focus of data center development.

Jeremy Tonin
Analyst, JPMorgan Securities

Got it. That's very helpful there. And then maybe just I guess, you know, pivoting when you talk about new deals, we've only seen nuclear so far, just wondering, How do you think about the potential for other resources coming forward here in the future? They're coming. That's how we see it. They're coming. Trust me. I'll leave it there. Thank you. Thanks, Jeremy.

Lisa
Conference Operator

Thank you. One moment, please. Our next question is coming from the line of Julian. Julian Smith of Jefferies, please go ahead. Excellent.

Julien Smith
Analyst, Jefferies

Hey, good morning, team. Thank you for the time. I appreciate it. Look, maybe, Mac, you just said it yourself a second ago. Why don't we take it up a little bit on that curtailment subject because that's certainly a burgeoning subject. I'm glad to hear you talk about it. How do you think about cultivating that yourself as a business? A, we have some of your peers that have these DR businesses embedded, but what I hear you saying is this is the curtailment of the actual load site. You don't need to develop a full DR suite of capabilities, I presume. How do you think about pivoting your business to enable that kind of contracting. And when you say they're coming a second ago, is that sort of the principal vector for addressing additionality that you're thinking through today? Is that that lens to meet that pledge?

Mac McFarland
Chief Executive Officer, Talen Energy

First of all, good morning. Look, Julian, I would tell you that in addition to capacity additions, whether it be batteries, peakers, combined cycles that helps solve some of the so-called additionality requirement, which is really ill-defined, by the way. But there are ratepayer protection pledges, and people are thinking about how to meet some of these obligations. I think we've been talking for, at least I've been mentioning this for a year, that load management on the data center on the demand side needs to get better. you know in the past it was you plop down a data center you took power when you needed it you didn't take power when you didn't need it and you didn't worry about any of the rest of it but now when you're developing gigawatt or more than in Susquehanna's case 1.9 gigs of data center development you need to think about your load management and I think that that's a growing concern and so we are advocating and I would you know I think we would all take the position that PJM needs to come out with a new large load demand response

product that's different than what I think you were mentioning with CNI. The CNI type demand response stuff is stacking nickels and dimes to make a dollar. These things are dollars themselves and need to have a different construct. They need to be paid for it. So that's the carrot as opposed to the stick of like an IRS. You know that we were never supporters of IRS. We've talked about that. And we think that it's discriminatory and all the other pieces. But if you could voluntarily subscribe to a demand response that was equitable and fair and paid appropriately and then I'll call it dispatched appropriately within the response by PJM. That is a solution that can be one of the most economic to solve some of these issues with respect to reliability and the capacity market. So when Terry was talking about the capacity market reforms, one of the things we'd like to see is how does demand response fit in there? I think we started to see a rationalization of load forecast. You saw that most recently. going into this auction about what the load forecast will be, what will be the requirements of the RVP, et cetera. So we're starting to get real sort of rationalized demand forecasts. Now let's add load management to those demand forecasts and get real about what is the right solution there. And I think there's a growing consensus that demand response is going to solve some of these issues. But I don't think it's akin to the CNI that you described there. I think it's something different because it's much larger. It needs to be managed not real time, somewhat longer in advance. So it's either a day ahead DR or a week ahead type DR response because people need to know how to shut down a gigawatt. So I can give you an example. Like Terry and I, when we were working in ERCOT, there's a big... and the assembly line in Fort Worth that was a big 50 megawatt, that was a big demand response asset that provided optionality. That's 50 megawatts, that was huge. We're talking gigs here and people that are managing the gigawatts or greater than gigawatts of load need to have a signal further in advance. So we're out pushing and advocating for a demand response product to be incorporated in long-term capacity reform.

Julien Smith

Analyst, Jefferies

Yeah, thank you for elucidating on that point because I think that's what I was trying to tease out is the difference from the new versus the old DR paradigm. So thank you for that and indeed good morning. If I can just to follow up a little bit, like I'm trying to read between the lines on the leverage target. You say an ability to achieve 3.5 net leverage target by the back half of 27. I don't know if that's an incremental take on your prior commitments. and really what I'm trying to get at there is how do you think about deploying the balance sheet? Obviously we see the ASR here, but how do you think about deploying strategically? You know, you went back to this contract by, you know, philosophy earlier. Where are we in potentially going back in and diversifying the portfolio further? And again, maybe I'm trying to read too much into some of the credit commentary here, but it would seem as if there's a litany of different permutations that you could evaluate here that would, you know, diversify you in different directions from what you have today.

Terry Nutt

President, Talen Energy

Julian, yeah, it's a good question. It's a good point. Obviously, we view the balance sheet as a key part of our strategic options, right? We've, you know, we've, as we've done in the past, we've taken the opportunity to take leverage up slightly to do really accretive transactions for the business. And we'll continue to focus on it. Our three and a half times net leverage target is a target. Obviously, we went up a little bit above that to do this most recent acquisition. And the idea is, okay, let's get back to a level to where we can sort of redeploy it again. I think we'll always look at how to utilize that in any part of our strategic alternatives, whether it's in the M&A space or the share repurchase space or other ways to grow the business and ultimately grow free cash flow for share.

Bill Appicelli / Cole Muller
Investor Relations / Chief Financial Officer, Talen Energy

And Julian, just as Terry said, When we've done the last two acquisitions, we've temporarily gone above the target, but with line of sight to get back down. And we meaningfully did that this quarter post the Cornerstone acquisition. The comment in the script around second half of 27 is reflective of a lot of folks are going to treat the capacity monetization as short-term debt. And so as that amortizes, we'll get right back down to three and a half times this time next year going forward.

Mac McFarland
Chief Executive Officer, Talen Energy

Okay. And Julie. Hey, Julian. Thank you, guys. Oh, yeah, Matt. You know, yeah, you just, you were asking a question about diversification. I mean, look, we like the position we're in. Let's not forget that we sold the ERCOT assets a couple years ago, recycled that capital into share repurchases at a time that now, in hindsight, you know, that doubled up the value that we sold those assets for. We are more than doubled, as I'm reminded here in the room. So I was being conservative there. But look, we like the position that we've concentrated in PJM. We like the exposure to PJM. We diversified through two acquisitions of over $7 billion and toggled the balance sheet to do so, toggled equity issuance to do so. So we remain flexible across all of those things. And I think we remain disciplined with respect to maintaining our balance sheet. But at the same time, we're willing to lean in and toggle those different aspects when we find the right opportunities. And so we'll do that in the future if we find a new one too.

Julien Smith
Analyst, Jefferies

Absolutely. Thank you guys.

Lisa
Conference Operator

Thank you. One moment for the next question. Our next question is coming from the line of Angie Storzinski of Seaport. Please go ahead.

Angie Storzzinski
Analyst, Seaport

Thank you and good morning. My first question is we're hearing a lot about the return on investment for data centers and how sensitive the hyperscalers are becoming to the cost of these investments and how big a component of that is power. We're just wondering how that is reflected in your discussions about what type of power source hyperscalers want. I mean, we've all been waiting for announcements about contracts for combined cycles. Those are not coming seemingly, or at least they haven't come yet. And just wonder how your position vis-a-vis this new increased sensitivity on the cost side for hyperscalers.

Mac McFarland
Chief Executive Officer, Talen Energy

Hey, Angie. Good morning. It's Mac. You know, that's a great question. We've always said, I think, that there's price sensitivity by the hyperscalers. A lot of people have said, well, they'll just pay anything, you know, because it's irrelevant. But we've always said that they're price sensitive. Cole's been saying that for years. And we're very much attuned to that. And I think that's why when you look at some of the solutions, and I'll just go through a couple quickly. First of all, you're looking north of 120 bucks all in a megawatt hour for a combined cycle, new combined cycle. And those costs aren't going down, they keep going up anytime you read them. And so I do think, and maybe just to mention it quickly, the demand response piece that I was articulating earlier or batteries or some other new capacity with existing gen is a much more economic solution. So we remain focused there. I think a lot of people have talked about the behind the meter solutions, which I do think that because of speed to power and sort of 27, 28 delivery, there's been a move into the behind the meter. But every time we talk to people, there's a reason why to be grid connected. It's much more reliable. In the long run is the lower cost. And so we're focused on grid connected front of the meter solutions, providing some form of additionality either through our you know backlog in new capacity or in figuring out this demand response aspect of things so I do agree with you that there's price sensitive we've always been in that price sensitive camp and attuned to it and so the solutions we're providing we think fit within that and that's why we've targeted them.

Angie Storzzinski
Analyst, Seaport

Great and a little bit of a different topic so if you're looking at power flows like exports and imports within PJM. It's pretty clear that the load growth is primarily in the minion zone, at least for now, and that is a zone that continues to attract more and more imports from outside of Virginia. So, I mean, is it just that we are still waiting for these data centers to be energized in a Pennsylvania and Ohio, those two states that seem to attract most debates about the power position. What is driving that? Again, it just feels like the import into Virginia continues to grow at a pace which is just not comparable to any other state.

Mac McFarland
Chief Executive Officer, Talen Energy

Well, yeah, I think you're right with respect to Northern Virginia. Okay, or Dominion Zone. And that's where a lot of this transmission that we think, you know, is going to get built over the next couple years will help. In fact, there's one particular line, I can't remember the name of it, Chris probably knows. But like, so, and but those projects have been started, you know, when you drive through Loudoun County, which I did within the past year. When you go through, you'll see projects that are being completed. Those things were started a long time ago, and so that's why you see those energized. But I do think that those projects are being built in Pennsylvania. I know that when we recently, Terry and I and Brad, our chief operating officer, were recently on the road and we went to all of our sites in Ohio, and as we drove into Columbus, you can see the data centers being built there. live on the ground just like you know if you look if you come up to Susquehanna you can see in Berwick you can see what's going on there and there was just another site approved in Salem Township recently I think last week on the 28th or something like that so they're coming it's just that I think Northern Virginia had a head start and they're just completing projects I think Columbus and in the

surrounding areas in Ohio have a head start and they're completing projects and so those will be energized just like the AWS contract so I think that you're right with respect to Loudoun County, but I also think they're coming in Ohio and I think they're coming in Pennsylvania.

Terry Nutt
President, Talen Energy

Yeah, and Angie, maybe to add to Max's comments on that, I think the other thing that we see is when you look at interconnection, which once again goes back to a key that the hyperscalers and the developers want, you get into some zones like Dominion where the transmission build out is there's just not a lot of ability to do anymore. But then you take a look at PPL and you know different zones like AEP and they've got the ability to build out more transmission PPL for example already has done that which is why you see a lot more focus in that market because there is the ability to get connected to the grid faster for reliability so we think that that advantages the grid and advantages the assets that we have there and that's why we expect to see more load growth and obviously we've you know we've got materials in the slides that show the projections for those two zones over the next several years and we continue to have a strong belief that it'll accelerate.

Angie Storzzinski
Analyst, Seaport

Yeah, and just one other question, completely unrelated. If you guys could explain to us what are, how do we actually understand the operates of gas plants? Because I think we're all used to like very small capacity increases, like anywhere between three to 5%, we see them. being pursued, for example, by Capital Power on some of the assets that they recently acquired. So when you guys talk about upgrades of your assets, what kind of a percentage of the install capacity are we talking about as a potential increase, and what do they entail? Thank you.

Bill Appicelli / Cole Muller
Investor Relations / Chief Financial Officer, Talen Energy

Good morning, Angie. It's Cole. Look, as you said, there's a lot of different upgrade opportunities across the asset base, not just ours. you know obviously there's nuclear upgrades you know we've said we've done our the larger ones and so we have you know relatively small number of upgrades at nuke on the gas side you know combined cycles depending on the vintage have different upgrade capabilities and they're all in different stages of that so that there's not one percentage There's also opportunities to convert simple cycle to combined cycle. Those have meaningful larger percentages because you're kind of, let's call it just doubling the size there, rough numbers. So we're evaluating all those opportunities and think that there's attractive opportunities to do those on a cost-effective basis relative to new build and also from a timeframe standpoint on the execution front.

Mac McFarland
Chief Executive Officer, Talen Energy

Look, Angie, we have a couple hundred megawatts or more across our fleet, and you're right. When it comes to the gas plants, particularly when you go back to the F frames, you're talking about doing these, I think

we're .04s right now, and there's a .05 upgrade, and you get those smaller percentages. But those come around every three to five years from GE to upgrade and squeeze more megawatts out. So those are the kind of upgrades that you're looking at. That's absolutely right.

Lisa
Conference Operator

Thank you. This does conclude today's Q&A session. I would like to turn the call back to Max for closing remarks. Please go ahead.

Mac McFarland
Chief Executive Officer, Talen Energy

Great. Thank you. Thanks everyone for joining us and I appreciate your interest and talent. We've got a bright future ahead of us and we look forward to continue to execute. Thanks again. Take care.

Lisa
Conference Operator

Thank you. This concludes today's program. Thank you so much for joining. You may now disconnect.

Investor presentation



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