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FIELD NOTES



Analyst Calls: Talen Energy (TLN)

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We've received lots of positive feedback on the new *Field Notes* series. I know I write about this often, but in the AI world, value accrues to those willing to search outside a Claude prompt. Talk to humans, visit companies, attend industry conferences, engage with suppliers, customers, former employees, etc.

That's my goal with *Field Notes* ... I want to **get out into the field** and share what I'm seeing, hearing, and feeling from my network of investors, friends, and industry experts.

This week, I'm sharing my transcripts from conversations with two hedge fund analysts who cover energy, industrials, and natural resources. These analysts both work at firms that own **large TLN positions**. One fund bought TLN after its bankruptcy, when it traded on the OTC Pink Sheets.

I've anonymized the analysts and funds but kept the meat of the discussion (thanks, Grok!), which I've split into ten sections:

1. **How they came to own Talen**
2. **Why they still own it**
3. **How they value the assets**
4. **PJM capacity prices after 2029-30**
5. **Contracting: Susquehanna, Amazon, and gas**
6. **Regulatory risk**
7. **New supply, turbines, and replacement cost**
8. **Downside, buybacks, and the floor**
9. **PJM versus ERCOT, and the PPL basis**
10. **Appendix: other names mentioned**

Before we dive in, a bit of background on each analyst.

Analyst A: Works at an event-driven / litigation fund. Got interested in TLN out of restructuring. Position originated on the unsecured steering committee in the Talen bankruptcy. Still a core holding, smaller than it was.

Analyst B: Old-economy fund: cyclicals, infrastructure, some tech and consumer. Underwrites on a four-year IRR, with a fund target of 15-20%. Bought Talen on the pink sheets after it re-emerged. Career in natural resources, industrials, and infrastructure.

How They Came To Own Talen (TLN)

TL;DR: Analyst A came in through the bankruptcy, on a legal and nuclear-PTC bet that is no longer the thesis. Analyst B bought the pink-sheet equity after emergence, when the demand story was just starting.

Me: A good place to start is some background on you and the fund.

Analyst A: The fund launched in 2021. I joined out of restructuring banking — about three years there — right as the fund was launching. The founder spun out of a large emerging-markets fund. He had been general counsel and a senior PM there.

He wanted a dedicated vehicle for litigation and special situations: call it 25 or 30 uncorrelated bets on event-driven outcomes, specifically legal or regulatory events. The team is about seven or eight investment professionals now, and about \$3 billion of AUM.

I used to be the only analyst, so I have my hands in a lot of jars. I predominantly cover some specialty pharma, a very large TMT name for us, and the IPPs, utilities, E&P, and commodities. Funny, given I left Canada, I would not have to do E&P or natural resources.

We picked up Talen in bankruptcy. We were on the unsecured steering committee. At the time, it was a different bet. We had legal actions we could take in bankruptcy—challenge some make-whole agreements, and so on—and we also had a view on the nuclear production tax credit getting passed. It was different back then.

As it progressed, we got familiar with the regulatory landscape for PJM, DOE, and the rest. We traded around it. At one point, we held over a million shares coming out of the bankruptcy. Over time, we have de-risked. It is still a core position. It is just not the massive position it used to be.

Analyst B: Our strategy is to underwrite things primarily in old economy, cyclicals, and infrastructure, and benchmark them on a four-year IRR. We risk-adjust hurdles. Infrastructure might have a 14% or 15% IRR hurdle. Quirkier situations might be 20 or 25. By and large, we target 15 to 20 percent fund-level returns. Tech and consumer are maybe a quarter to a third of the book — diversification, and more recently a window into hyperscalers and data-center demand.

I have spent my whole career in cyclicals: natural resources, industrials, infrastructure. I didn't spend much time in power. When I was in natural-resources banking, the firm owned TXU, which was going bankrupt — that is now Vistra — and power sucked for a long time. Overleveraged, overbuilt. Nothing to do. I spent time in other regulated markets, much of it in natural-gas midstream. Over the last three years, I have spent a lot more time in power.

We bought Talen when it was still on the pink sheets after re-emerging from bankruptcy. Power generators don't go bankrupt because they don't generate revenue or margin. They go bankrupt if they are over-levered. That was the situation. Then, as it re-emerged, the demand tailwinds came roaring forward. The thesis has evolved a lot. If you want to sling arrows, you can say we have had thesis drift. I am happy to discuss that.

Why They Still Own Talen (TLN)

TL;DR: Both still own it after a 25–30% pullback. Analyst A frames it as growth at a reasonable price once the “free contracting” era is over. Analyst B frames it as cash flow that has doubled in his model while the stock has fallen, with the argument now entirely about the multiple.

Analyst A: Why do we still own it? **The age of the free-contracting opportunity is over** — earning scarcity rents on existing assets. That is probably dead. That is probably for the best, even though I think the whole power-constraint thing is overstated. It is more of a capacity issue than an energy issue.

We have more than enough CCGTs and combined cycles across the country. If you spun those up for 10 or 15 percent more capacity factor a year, this would be solved for the most part, except for eight to sixteen hours of the year.

The regulated utilities were pissed that the IPPs were earning these scarcity rents. They made it an issue. Plus, demand was higher than anyone expected. So we have this hodgepodge of regulatory actions preventing deals from getting through.

Today Talen trades at what I call a mid-teens free-cash-flow yield. That is what I associate with a better equity coming out of a bankruptcy. A pretty high free-cash-flow yield for something with relatively low growth capex. On the capacity side: are they over-earning right now? Sure. But are they generating so much free cash flow from capacity that they can shrink the share count a lot? That is probably right.

On the contracting side, I think you will have contracts. We just saw Constellation and AWS a day or two ago. You do not need to build one-for-one megawatts for existing assets. Is that slightly easier with the nuclear deal? For sure. Will they get gas deals done? I am pretty confident they will. We have lawyers all over Pennsylvania scouring local township meetings, and I am watching them too. It seems like they are in a pretty good position to energize some more assets.

At \$315 a share, and a 14 or 15 percent free-cash-flow yield, we think it is a compelling growth-at-a-reasonable-price point.”

Interviewer: If this were not a name you had held since the bankruptcy, and you looked at it with fresh eyes, would you still be as excited, given it has pulled back about 30% from the highs?

Analyst A: “At \$440 I was less excited. Call it the low \$300s, I am more excited. At \$285, I was trying to take it back to max size. Part of that is hard to parse from familiarity — I have known the thing for five years. We were also part of the group that installed the management team in the bankruptcy.

I think they are top-notch, one of the better management teams I have worked with. I am skewed, because I do distressed, and management is usually not great. **But if I knew everything I know about the power market, and I had seen the bear arguments come and go, I would be just as enthused.** It is a nice GARP way to have upside on AI without buying feathers.”

Analyst B: Over the last year our internal free-cash-flow projections for Talen have probably doubled for 2028 or 2029, and the stock is down 25 or 30 percent. There's tension over the right multiple. Is it a deep cyclical, and if so, will the market turn? Or is the market so tight for the next five to ten years that, even as a plain merchant power producer, it can still generate a good return? I think even that assumption still generates a good return. Or does the market structurally improve because of PPAs? That is still possible.

We are hesitant to underwrite it as a base case, just conservatism — notwithstanding that Constellation signed a PPA yesterday. People say customers will only sign new PPAs on nukes. We agree that is the preference. We have also seen PPAs signed for gas over the last six to nine months. There is a lot of hand-waving, and a lot of ignoring the math. The

regulatory stuff is real, but to us it all seems constructive. We would rather have clarity and move past the uncertainty, which seems pretty peak-priced into the stocks.

Between now and 2030, you are going to generate roughly half of enterprise value in free cash over the next four years. That doesn't even account for higher power pricing. **You generate about 90 percent of the market cap and half the EV.**

How They Value The Assets

TL;DR: Analyst A still carries a sum-of-the-parts, in dollars per kilowatt, and refuses to capitalize peak earnings on the legacy fossil fleet. Analyst B underwrites free cash flow and a shrinking share count, and is explicit about not compounding those two. Both say the market has shifted to a free-cash-flow multiple.

Interviewer: You have Susquehanna, the gas plants, some legacy coal and oil. How do you think about valuing those, even on a per-share, per-asset free-cash-flow basis?

Analyst A: I use a dollar-per-kilowatt for everything other than Susquehanna. Free cash flow on a per-asset basis is fuzzy, because you have to allocate fuel and corporate. For Susquehanna, I break out the NPV of the over-earnings from the Amazon contract versus what it should earn at a base level.

It is the seventh-best nuke in the country — one of the biggest — and has a top-decile cost structure. I use a 15 times multiple on what I consider base earnings. I am open to not using 15 times.

If you have looked at PJM sparks this week, PJM calendar 2028 ATC is about \$73, which would actually imply that Susquehanna's AWS contract is out of the money. The CEO has been making fun of a coal plant at conferences for striking an out-of-the-money PPA. Kind of funny.

Lower Mount Bethel is a 2003 or 2004 vintage. I use just under \$2,000 a kilowatt — call it \$1,965. I get that by taking its heat rate and comparing it to a newer asset they picked up, Moxie or Guernsey. Something like a 7,500 heat rate versus 6,500, and I discount the multiple I use on the others. On Moxie, Guernsey, and Lawrenceburg, I use \$2,250 per kilowatt. They are new CCGTs, latest generation. I could peg them at \$3,000. I do not think

that is realistic, so I use \$2,250. Waterford, on the western side of Ohio, is a slightly older asset, so I use the same \$1,965 as Lower Mount Bethel.

For the rest of the legacy fossil PJM fleet, I use six times EBITDA. I am not giving them mark-to-market credit. I am using what I had in the model from 2024 as a run-rate EBITDA that should prevail if we return to an older price regime. I do not want to capitalize peak earnings.

Coal strip is three times, even one time — it does not matter. Then I add the NPV of Cumulus, assume some terminal value, add PJM forwards, and the Brandon Shores RMR through 2032. Lower Mount Bethel expansion, Montour, and Upper Mount Bethel I put in at very low probabilities, about 25 percent. That is how I drive the sum of the parts. The way most people look at it now, or where the market shifted, is just a free-cash-flow multiple.

Analyst B: On a replacement-cost basis, I get to \$46 billion of enterprise value, less whatever debt they have, so about **\$37 billion of equity value.**

On the share count, we have to be careful not to compound one underwriting error with another. If the free cash dollars are higher than they should be, don't also shrink the share count on top of that.

In my model, **by 2031 I have them at about 25 million shares, and two and a half turns of leverage.** They are going to shrink the share count massively. I will make up a bad number: \$1.5 billion of free cash.

If they are doing a \$2 billion run rate now, say for some reason they do \$1.5 billion. At 25 million shares — and that share count is what the locked-in cash flow from the caps gets you — that is \$60 a share of free cash.

Put a 10 percent yield on that. Fine. The stock doubles over four years, or three and a half. That is not great. If that is the downside case, it is a good downside case.

One unexpected problem with Talen is basis. I will come back to that. If you said the basis goes to zero, and Talen realized the full PJM West strip — which at some point, 2029 or 2030, they should — free cash flow goes into the mid-to-high seventies per share. On the shrinking share count I have it at about \$98 a share for 2031.

PJM Capacity Pricing Post-2030

TL;DR: Both treat a lower capacity price as likely, and both think the scare is larger than the cash-flow math. Analyst A puts a number on the hit. Analyst B reframes capacity as a small slice of margin once you convert it to dollars per megawatt-hour.

Analyst A: The three bear theses are: one, Susquehanna somehow magically goes away. Two, capacity prices are likely going to go down, and Talen is the most exposed. To be super clear, that second point is factually true.

Talen is the most levered to PJM and Pennsylvania capacity prices. I think capacity prices will go down at some point. To your point, it starts in 2030. They are doing about \$1.2 billion in revenue, EBITDA, and free cash flow from capacity prices. Consensus for 2030, not sitting in front of my screen, is around \$3 billion.

Julian at Jefferies is the main bear. He did an analysis where, if you add in all the forecast supply and bifurcate existing assets from new assets, he thinks capacity prices go down to \$200 or \$220. That is about a third of existing capacity prices, out in 2030 or 2031. Say it goes down. That is about a \$400 million hit to EBITDA and free cash flow.

Susquehanna is ramping at the same time and should be online much sooner, and should offset that. I reviewed the consensus forecast. **Not a single analyst has capacity prices clearing at \$335 or higher that far out.** Susquehanna runs through 2041 on the initial term, and that price is fixed.

Interviewer: The last few auctions hit the cap. Three consecutive auctions at \$325, and it looked like demand went up to \$500 to \$700 a megawatt-day. So I don't know that regulators can just crack down, given the supply-demand mismatch.

Analyst B: With the PJM RBP getting delayed yesterday, it is highly likely that the next capacity auctions — one in December, one in May — price at the cap. The delay makes it highly likely the cap gets extended another year for the May auction. Based on what has been submitted, highly likely you price the cap in each. That stuff is pretty black-box to model. That basically locks free cash between now and 2030.

A small subset of loud sell-side people scream about how much of Talen's free cash comes from capacity revenues, and what happens if those go down. They are not going back to

where they were three years ago. Three years ago was the trough of the trough. **The market is structurally changed.**

Margin comes from capacity revenues and energy margins.

If you translate capacity margin into dollars per megawatt-hour instead of dollars per megawatt-day, capacity contributes only about \$12 per megawatt-hour, versus power pricing around \$70 and spark spreads around \$50.

These guys are generating \$50 to \$60 per megawatt-hour of margin. Of that, only about 20 percent comes from capacity pricing. Capacity pricing is the stuff that has the cap.

The cost of new capacity is well, well above the \$325 to \$330 per megawatt-day cap.

Interviewer: On Bloomberg, the 2029 power strip — what am I looking at?

Analyst B: FPY29 Index. That is the 2029 futures strip for power pricing in PJM West. Look at a chart. 2028 and 2030 are doing the same thing. Our numbers are only going higher.

Contracting: Susquehanna, Amazon, and gas

TL;DR: *The live argument is not whether nuclear is the preferred contract. It is whether Amazon walks, and whether gas plants can get deals at all. Analyst A has been in Salem Township. Analyst B will not put unsigned PPAs in the base case.*

Analyst A: The idea that either the Shapiro order or the RBP / IRAS process results in Amazon walking away from Susquehanna — because they are not going to grandfather it, or because Amazon does not want to be curtailed — I do not buy. Amazon is probably the most aggressive in the current buildout. They have the partnership with X-energy, so SMRs are covered. They have been very active in solar and battery storage.

They kicked this whole thing off by doing the deal with Talen. And they have already put a billion-plus dollars, not including the data center itself, into the land adjacent to Susquehanna, the fiber connects, and buying out adjacent parcels from farmers.

I have surveyed some of those farmers, driving out to Salem. They went from valuing land at \$70,000 an acre to over a million dollars an acre. Salem Township is one of the few places still supportive of data centers, and still advocating for them, because they are all rich.

Multi-millionaires. Kids set, grandkids set. A complete reversal in fortunes. They are grateful, and they are actually supportive. I do not think Amazon is going to walk away.

The first chair, Laura Swets, said commercial arrangements should not be disrupted by either the RBP or IRAS. And Shapiro's executive order — which is not final law — if you read page 33, paragraph 4, it is very clearly a grandfathering clause for existing assets.

You do not need to build one-for-one megawatts against existing assets. Nuclear makes contracting easier. Gas deals still get done. I am pretty confident. The township record looks like they are in a good position to energize more assets.

Analyst B: People say customers will only sign new PPAs on nukes. We agree that is the preference. We have also seen gas PPAs signed over the last six to nine months. I still will not underwrite unsigned PPAs as the base case.

The accelerated share repurchase they announced yesterday ties their hands on how much free cash they can put into new PP&E, bilateral new builds, or whatever else. That is great. I do not distrust them — I think they are outstanding capital allocators — but now we know where the cash is going. It reduces the tail risk of them doing something stupid.

No free-market operator will develop a new power plant without a contract. Anybody with a project and the capital to spend it knows they have data-center demand they can contract to. Contracting capacity is more attractive than taking speculative risk in the merchant market.

Merchant means you are not contracted. You are taking spot-price risk. Even if you want to hedge it, these markets are not very liquid. You can only hedge them about two years out. That is not enough to lock in a return on a long-lived asset. You need a minimum ten-year contract, really twelve to fifteen.

Interviewer: During the first call, a headline hit: the DOE offering Vistra \$4 billion for nuclear upgrades.

Analyst A: This is an existing deal with Meta that relies on those upgrades. People were making the bear argument that the federal government had shied away from letting existing assets contract.

Sure, Chris Wright was there in January. He would not be there today. This flies in the face of that. Totally pressed for power, totally pressed for additionality.

Interviewer: To me, that just shows we are pressed for power.

Regulatory Risk

TL;DR: *The rules will change, the change is unlikely to confiscate the existing book, and the uncertainty is already in the stock. Analyst B thinks a structural overhaul is less likely than it was a year ago.*

Interviewer: The other bear case for me is that these are rate-sensitive, and that regulators eventually come after the IPPs and crack down on pricing. If Talen doesn't sign a couple more contracts, maybe it doesn't deserve to trade where Constellation trades. Maybe a mid- or high-single-digit free-cash-flow yield is optimistic, and a low-double-digit yield is the right one. That skews the upside and the downside.

Analyst A: Regulators did react to the scarcity rents. That is why deals have been harder to get through. On Susquehanna specifically, the grandfathering language is in the order, and the commercial-arrangements comment from the first chair runs counter to the “Amazon walks” version of the bear case. I do not think the deal goes away.

Analyst B: The regulatory stuff is real, but any of the suggestions that are out there are totally fine with us. We would rather have clarity. The uncertainty seems peak-priced into the stocks.

One downside case is a massive regulatory overhaul that fundamentally changes the market structure. That is less likely today than it was a year ago. FERC has done a whole bunch of hearings on reforming PJM and putting rules around data centers.

That has migrated to the current state: give the states more rights, but keep an open market so data centers can still be developed — they might have to be curtailed. That is totally fine. Totally reasonable. Data centers should not be able to pull gigawatts of capacity off the grid. The problem is the grid is really tight in PJM, and it is hard to add supply.

The mark-to-market fear of capacity adds or regulatory reform is actually more detrimental to the share price than what would happen if those things came to pass in five or eight years.

New Supply, Turbines, and Replacement Cost

TL;DR: *The supply answer from both seats is the same: a new combined cycle does not show up in PJM in time to matter for this underwriting window, and it does not clear at the current capacity cap. They disagree only on how hard to lean on sovereign-sponsored builds.*

Interviewer: Even if the government gives people free money, there is a two- or three-year backlog just to get turbines. This stuff is not easy to turn on. The terminal value of having power today versus waiting for it is the difference between who wins the AI race.

Analyst A: GE Vernova is sold out through midway 2030, and they are taking slots for 2031. Call it four years, give or take, for a new CT or CCGT if you want the turbines. A new CCGT at prevailing EPC is about \$3,000 a kilowatt, you are getting the turbine in 2031, and you probably have two years of EPC, so COD is 2033. Six and a half, seven years.

I know there is talk of Japan building an enormous gas fleet and Korea building eight nuclear plants. I think those are highly unlikely to materialize. I am okay if by some luck some of them do. If you strip those out of PJM's forecast, PJM remains severely undersupplied. On a new asset — Homer City at \$2,500 to \$3,000 a kilowatt — you need an LCOE of about \$120 to \$130 a megawatt-hour, just shy of where a Bloom sits, and you need a capacity price of \$1,000 to \$1,200 a megawatt-day. Between us, I think GE Vernova may have some turbine slots fall out toward the back half of the decade. I think that name might be a short, and that might scare some folks. I have talked to IPP management teams this week. They all kind of chuckle and say, we will see.

New nuclear: I will see you in 2040 if I am still in Talen and the new nuclear comes online. CTs have been hit by inflation too. I have heard \$1,000 to \$1,400 a kilowatt, versus five years ago when I was using \$150 to \$400 a kilowatt for some of the shittier peakers.

They cannot run more than about 20 percent of the year. Even they are not economic at a \$550 per megawatt-day price. Batteries: expensive, harder to procure because of bans on Chinese equipment on both the substation side and the grid side, and the ELCC is about 52 percent for 2027 and declines to 25 percent by 2029.

Cutting accreditation in half makes the economics unfeasible. I am not worried about the new-supply side. If turbine slots start coming out and people try to offload them, power

benefits, because they can pick up whatever they want. The existing assets remain the scarce thing in a tight market, even if it loosens a bit.

Analyst B: The cost of new capacity is well above the \$325 cap. Basically no free-market operator builds without a contract. The thing to watch — and nobody knows how real this is — is the Korean money and the Japanese money. The line is that the Koreans will pay for a new power plant and spend \$50 billion.

They are building a six-gigawatt one that NextEra is helping develop in Texas, and there are purportedly eight gigawatts of new nuclear the Koreans are working on. The Koreans have said in the press that the administration has overstated what they agreed to. They are not going to do these unless they are economic and fit Korea's legal framework. The worry would be that they flood the market.

That new capacity is not going to change Talen's free cash flow between now and 2031, really before 2035. Even with that capacity in a supply-demand model, PJM is still short power.

Interviewer: I am getting \$30 to \$40 billion of replacement cost for what Talen has today. Even if you add one more year, the gap goes from 33 gigawatts to something like 70 by 2030.

Analyst B: On replacement cost I get to \$46 billion of enterprise value, about \$37 billion of equity value after debt. And yes — include the announced sovereign capacity and PJM is still short.

Downside, Buybacks, and the Floor Valuation

TL;DR: Asked directly how the stock gets screwed after 2030, neither seat has a near-term fundamental break. The downside they will underwrite is a lower multiple on a smaller, but still large, stream of free cash, after a lot of stock has been retired.

Interviewer: I am more comfortable with the upside. The buyback and the accelerated repurchase give me comfort on the downside, because any dip they can buy with the free cash flow. What I want is the fair downside price after 2030. Say regulators get hawkish and do everything they can to screw the IPPs. How do you think about that? And rates — these companies have leverage. How much of a headwind are higher yields?

Analyst A: Capacity prices coming down is real, and Talen is the most exposed name to that. A move toward \$200 to \$220 in 2030 or 2031 is about a \$400 million hit, and the Susquehanna ramp should offset it inside the window that matters. The deal-goes-away case is the other one, and I do not think Amazon walks. At \$315 and a 14 to 15 percent free-cash-flow yield I still think it is compelling. At \$285 I wanted it back at max size.

Analyst B: There are two downside cases. One is a massive regulatory overhaul that changes market structure. Less likely than a year ago, for the reasons I gave. The other is that a bunch of uneconomic capacity gets built. A free-market operator will not do that without a contract. Sovereign-sponsored capacity is the residual worry, and it does not hit free cash flow before 2031, really before 2035. Even then, PJM is still short in the models that include it.

So take a made-up downside: \$1.5 billion of free cash, 25 million shares, \$60 a share, a 10 percent yield. The stock doubles in three and a half or four years. If that is the downside, it is a good downside. **Accelerated repurchases mean we know where the cash goes.**

How much do higher yields really affect something with a 15 percent free-cash-flow yield? They should not. Fifty or seventy-five basis points should not matter at that spread. It matters for the regulated utilities.

Regulated utilities have more growth today than they ever have, so they should be less rate-sensitive than they used to be, but they still are. IPPs should be less rate-sensitive than that. It depends on the multiple. Constellation should be much more rate-sensitive than Talen, Vistra, or NRG.

PJM versus ERCOT, and the PPL basis

TL;DR: *This section is almost entirely Analyst B. It is the part of the Talen underwriting that is not in the capacity-price debate: local basis in Pennsylvania, and why the tight market they want is PJM rather than Texas.*

Analyst B: Why do we like PJM instead of ERCOT? Two things. ERCOT is way easier to build in, because it is just Texas. Easier to get gas pipeline connections. Easier to get land. Less red tape. We're seeing far more projects being developed for new gas plants around Texas than around PJM. Second, Texas has a lot more sun and wind, so a lot more renewables. That has flooded the daytime power market and suppressed price when demand is below

the peak and generation is at its max. We do not worry about that in PJM. The sun does not shine as much, the wind does not blow as much, there has been very little renewables development, and I think it stays that way.

It is backwards-looking, and a little ironic. Six to nine months ago a lot of people preferred ERCOT to PJM because they worried about PJM regulatory risk. Now Texas has become more hostile to data-center development than PJM, and ERCOT power prices are really sucking. PJM West — the strip I showed you — is only going higher.

Interviewer: I am not familiar with basis differentials.

Analyst B: PJM West is the most liquid region in PJM. Smaller local areas, tied to individual assets, have different prices. Same idea as oil: a price for WTI, and a price in Alberta. If the Alberta barrel doesn't have pipeline capacity to reach the benchmark, it sells at a discount. That is happening in part of Talen's generation. There is an area called the PPL zone. It is about 40 percent of Talen's gas exposure. Historically PPL traded at about a \$5 per megawatt-hour discount to PJM West. That differential has widened to \$15 to \$20 over the last year and a half.

It should close, because about 15 gigawatts of data centers are planned in the PPL zone, so local demand will be higher. For right now, Talen is only realizing the higher prices on that 2029 strip on about half of its gas exposure.

If the basis goes to zero and they realize full PJM West pricing — which by 2029 or 2030 they should — free cash flow goes to the mid-to-high seventies per share. On the shrinking share count, about \$98 a share in 2031.

Appendix: other names mentioned (SOC, TDAY, SHC)

Analyst A: I like Sable Offshore. I get that reaction every time I pitch it. I hate the management. I think they are slimy. I think the asset is good, and I think the litigation is good. We have a convicted view on the litigation.

We added significantly after the drop. From here it is something like a 4x if it works. The promoter who used to pump it is not pumping it anymore.

I like USA Today (TDAY). Obviously a dying newspaper. I think they are turning the corner, can transition to digital, and can get AI content-licensing deals. There is a fundamental case that this does not go belly up.

What attracted us is a claim against Google that we think is somewhere between half and three times the market cap. It is an antitrust claim. You have a finding of liability ported over from the Eastern District of Virginia, the DOJ case in front of Judge Brinkema. They should be going to trial next year.

They are leveraged, but they are organically deleveraging, and they have sold non-core assets. Apollo is the second-largest equity holder and controls the debt stack — the term loan, and 100 percent of the converts. Apollo being in the cap stack gave me pause when we first got in. They have been constructive so far.

If you want healthcare-derivative exposure, I like **Sotera Health**. We got involved after the Sue Camuto verdict in 2022, sold some, and got re-involved after the investor day where they reset long-range guidance and got sued in California. We think California will be fine.

People underappreciate the judge's background and posture. People who are typically long it do not really follow the legal docket, so when judgments come out you have had hours to trade ahead of the market, at least historically.

Mission-critical business. Mid- to high-single-digit revenue and EBITDA growth on 51% to 53% EBITDA margins. Trades at a massive discount to Steris, which is the closest comp, even though this is the best part of Steris ripped out and amplified.