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# Supporting investment in LNG infrastructure through the energy transition – A financing perspective

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# Transition to Net Zero Emissions (NZE)

According to Shell LNG Outlook 2022, **98% of LNG imports now under NZE ambitions**

Lenders, including export credit agencies are increasingly focused on the carbon intensity of LNG projects, when undertaking due diligence and making investment decisions

Lenders' due diligence on a project's environmental & social impact needs to cover greenhouse gas emissions (scope 1 & 2)

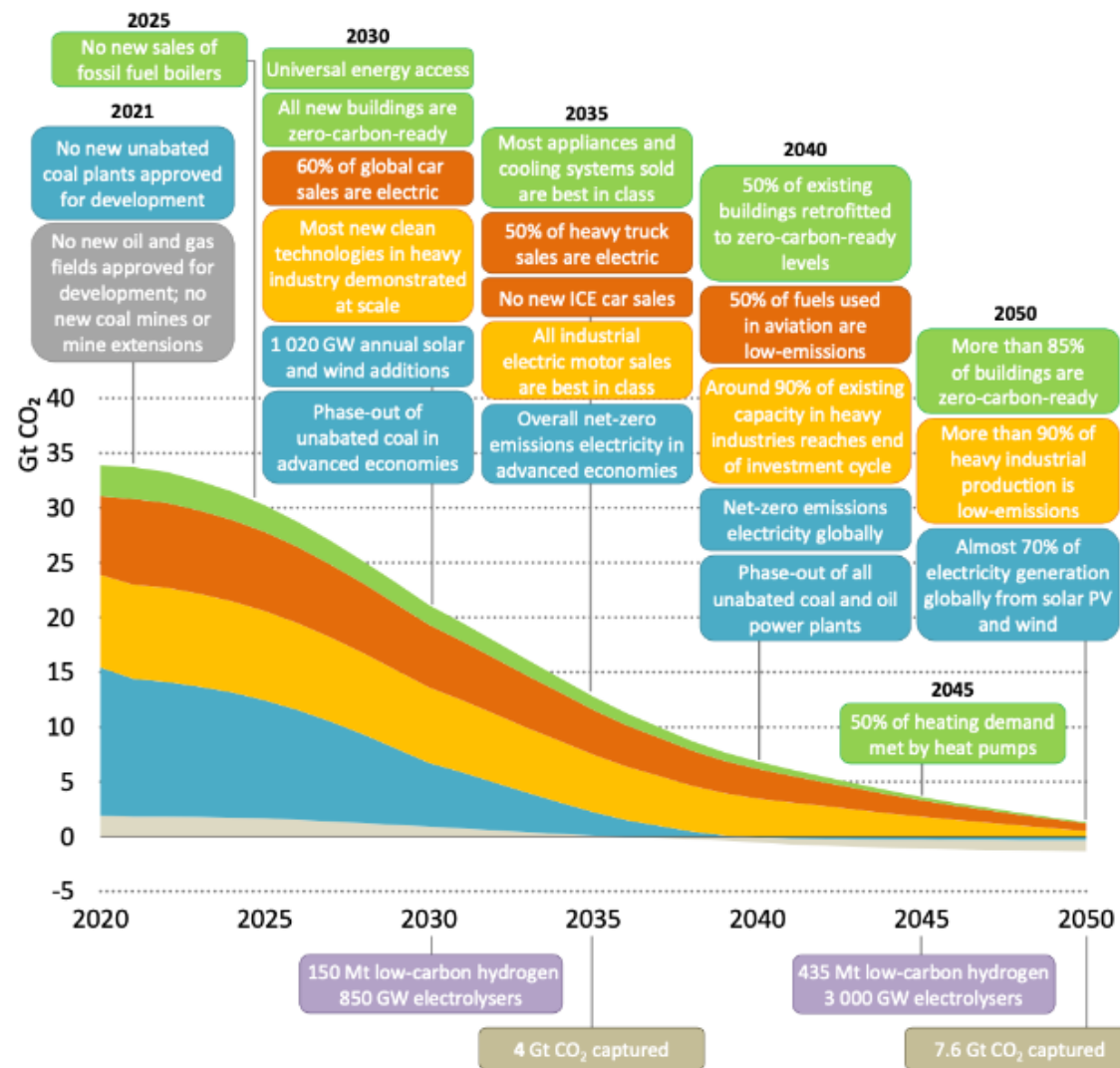
The transition to NZE will impact ability of certain LNG projects to attract project financing:

- Impact on offtake contract terms
- Impact on capital cost
- Impact on financing requirements and terms

# (1) Impact on Offtake Contract Terms

## Need for Greater Flexibility

- Long-term project financing traditionally relies on long-term offtake to reduce market risk
  - Traditional reluctance of project finance lenders (including ECAs) to give credit to spot LNG sales
  - Increased liquidity in the spot market has challenged this approach
  - Securing long-term offtake commitments will become more challenging as we approach 2050 NZE deadline
- Greater flexibility in LNG offtake contract may be seen as an advantage in the context of energy transition
- Financings for expansions projects / US export projects less dependent on long-term offtake



Source: IEA

## (2) Impact on Capital Costs

- Additional upfront capital cost to reduce CO<sub>2</sub> / methane emissions
    - Upstream gas development
    - Liquefaction terminals
    - Shipping
    - Regasification terminals
    - Increased efficiency may lead to cost savings during operations
  - Impact exacerbated by price inflation and reluctance of EPC contractors to offer a lump sum turnkey solution on 'competitive' terms
- ⇒ Higher borrowing costs plus increased cost-overrun / completion risk
- ⇒ Projects also need to address any perceived increased technology / leakage risk associated with associated technologies (e.g., CCUS)

## (3) Impact on Financing Terms

- Shorter term contracts and higher capital costs may reduce debt capacity
  - Lower coverage ratios
  - Lower leverage
- ⇒ Erosion of project economics may impact FID decisions
  
- Many commercial banks / ECAs / DFIs will not lend to 'unabated' LNG projects
  - Reduced debt market liquidity
  - Consider alternate sources of capital (capital markets; private capital)



# Future-proofing the Project – Reduce Emissions

## Reduce Scope 1 & 2 emissions

- Electrification / renewable power generation for LNG plant
- CCUS at the upstream / midstream
- Reduce flaring / venting
- Increase energy / fuel efficiency along the value chain
- Electrification of boil-off gas recovery
- Use of biomethane / synthetic methane
- Emission offsets

## Reduce Scope 3 emissions

- Reduce flaring / emissions at the regas facilities
- Renewable power
- Improved efficiency (cogeneration / trigeneration)
- Downstream CCS (power, industrial and blue hydrogen production)
- Emission offsets

# Transition to Future Energy Solutions

Integrated energy systems an increased focus for investors:

- Ammonia / H2 'ready' design for the import facilities
- Hydrogen / biogas blending
- Co-location of infrastructure

Support / negotiate 'future-proof' commercial terms

- Minimise carbon lock-in
- Maximise commercial flexibility

# New Investment Model

- Modular projects to reduce debt sizing
- Sculpted amortisation schedule with:
  - 2/3 pay-down by long-term contracts
  - Residual debt serviced by spot LNG cargoes or H2 sales
- Banks / ECAs may be willing to take LNG price exposure if you can show a pathway to NZE transition
- Emergence of so called 'Super Basins', where upstream gas resource, CCS and renewable power resource combine