

Challenges and strategies for financing CCUS projects- UK Infrastructure Bank

This talk will give an overview of UK Infrastructure Bank (UKIB), including the mandate and sectors of focus. It will also go into some of the key risks for CCUS from a financing perspective and how UKIB view that they can help solve these challenges.

The UK Infrastructure Bank is a government-owned policy bank that was established 2 years ago. The Bank is focused on increasing infrastructure investment across the United Kingdom. Our mission is to partner with the private sector and local government to increase infrastructure investment in pursuit of our two strategic objectives:

- Helping tackle climate change, particularly meeting our net zero emissions target by 2050.
- Supporting regional and local economic growth through better connectivity, opportunities for new jobs and higher levels of productivity.

The Bank has published a strategic plan which sets out how UKIB will deliver on its mission and objectives. The plan identified a wide range of investment opportunities with five priority sectors including clean energy, transport, digital, waste and water. Our ambition is to help address market failures and help direct private investment to projects that bring social benefits as well as financial returns.

As outlined in the UKIB strategic plan, CCUS is a key focus sector for UKIB. Initial projects will be first of a kind, testing the new government support packages and potentially pushing technology boundaries. Some of the key financing challenges are likely to be:

- Construction risk: given the projects are first of a kind, they may have high technology risk and/ or significant risk of cost overruns. Financiers generally like fixed price contracts for construction which may be difficult to achieve in this nascent sector.
- “Cross chain risk”: transportation and storage (T&S) projects and emitter projects are critically dependant on each other. This project-on-project risk can cause periodic reductions in revenue for emitter projects.
- Operational performance: once operational, the technology may not perform as expected meaning there are lower revenues and in worst case scenarios government support contracts can be terminated.

UKIB are keen to work with projects inside and outside of the cluster sequencing process in order to discuss their barriers to financing, and how we can help them accelerate, achieve financing and succeed. For CCUS particularly UKIB think we can help by:

- Providing senior debt to bridge any market capacity gaps
- Providing a senior debt guarantee as a credit substitute for lenders to crowd in different types of funding into the structure
- Provide tailored subordinated debt tranches which help mitigate key CCUS financing risks outlined above for other lenders.