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Fitch Ratings: Financing Evolving for North American Energy Infrastructure in 2020

Fitch Ratings-New York-11 December 2019: The evolution in financing for energy infrastructure projects will continue into next year, according to Fitch Ratings in its 2020 outlook report.

Fitch is maintaining its stable outlook for North American Energy Infrastructure with most project financings reflecting fixed-price off-take agreements that minimize revenue and margin volatility. However, according to Andy Joynt, Senior Director at Fitch Ratings, shifts are already underway in the typical energy project finance paradigms. "New off-taker types are becoming commonplace and merchant exposure is being incorporated into portfolio financings," said Joynt. "Additionally, newer technologies like battery storage are also gaining investor confidence and may increasingly be paired with solar or thermal generation in future projects."

This evolution comes during an increasingly competitive environment for contracts with PPA pricing and terms steadily falling. This is prompting developers to seek finance projects with re-contracting risk on the table. "Even in the absence of a replacement power purchase agreement, a project could sell energy into the wholesale market but this introduces revenue volatility that erodes credit quality," said Joynt.

Heading into 2020, U.S. liquefied natural gas (LNG) export capacity now exceeds 6 Bcf/day with a handful of projects entering commercial operation in the second half of this year. Asia in general is considered the biggest market opportunity with China a massive consumer of natural gas. However, demand has not materialized due to the ongoing trade war between the U.S. and China. "An ease of trade tensions could lead to a new wave of LNG contracts and trigger final investment decisions on some pending new projects or expansions," said Joynt. "Conversely, LNG suppliers may look to Europe and Latin America if tensions linger."

Fitch Ratings 2020 Outlook: North American Energy Infrastructure is available at www.fitchratings.com.

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