

WORLD GAS INTELLIGENCE®

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INTERVIEW

STX Group Bets on Financing Biomethane Projects

EU targets to boost biomethane production are prompting investors to pump money to secure a competitive advantage into the growing green gas market. Energy Intelligence talks to Sead Keric, managing director for renewable gas at Dutch environmental commodities trader STX Group, to understand what the main bottlenecks are to unlocking capital flows into European biomethane projects.

Q: What is STX Group's strategy?

A: We are a global environmental commodities trader and climate solutions firm. We are active in a number of important elements for decarbonization: energy attribute certificates, energy efficiency, fuel switching — from fossil fuels to alternative options like renewable natural gas and biofuels, as well as voluntary and compliance carbon markets where we look at offsets. We acquired in 2021 fully regulated entity Vertis Environmental Finance for compliance markets and launched in 2023 our climate action division, STRIVE by STX. We believe that a whole new asset class is forming — environmental commodities — and we want to position ourselves as one of the global leaders in that business. Looking at renewable gas and biomethane, it is very similar to how we approach our other businesses. We're looking at the full value chain. A way to add value is connecting production and demand and applying our capital to invest in plants either on the debt or equity side.

Q: What is your fuel switching business?

A: We have three business units focused on this — renewable electricity, renewable gas and liquid biofuels. For renewable gas, we have products like biomethane, bio-LNG, hydrogen and biogenic CO₂. As for biofuels, it can be feedstocks for biodiesel production, like used cooking oil. Also, the refined product and the tickets that are created once it's put on the road or into marine demand, fulfilling a renewable fuel blending mandate. Examples of tickets are THG [Treibhausgasminderungs, or Greenhouse Gas Reduction] quota in Germany, or RTFC [Renewable Transport Fuel Certificates] in the UK, or HBE [Hernieuwbare Brandstof Eenheden, or Renewable Fuel Units] in the Netherlands. Those systems are tools created to promote blending of renewable fuels or enable parties, which don't have capabilities to blend, to buy the allocation of overblend from someone else.

Q: Is there really a market for biomethane? And what's your role in it?

A: The biomethane market has existed for quite some time. We started becoming active in 2013. And back then, the business model was to supply German biomethane to German combined heat and power plants. The main driver for that was the German feed-in-tariff, the EEG. So instead of using fossil gas, they were using renewable gas, and therefore classified as renewable electricity. A few other countries in Europe have similar incentives promoting increased uptake of biomethane. For example, Sweden's energy tax and CO₂ tax. Over time, the markets have grown, with different incentives being put in place to promote decarbonization in different sectors. That is what drives our interest in these markets.

In addition, we see that this is a bilateral market, there's no exchange where buyers and sellers can meet, which is why we believe we have a crucial role to play, placing the biomethane from the producer to different fragmented destination markets.

Q: What about the market for bio-LNG?

A: Bio-LNG is quite new for us. We have started supplying bio-LNG to customers and see this as an interesting business going forward. There are several projects around in Europe, producing bio-LNG on-site or via centralized liquefaction projects. We see the LNG demand, especially in the transport sector, growing, and it's a way for the market to access feedstock pools further away from the gas grid.

Q: In terms of geography, where are you active?

A: We're actively trading biomethane in Europe and the US. In the US it's called renewable natural gas, or RNG. In Europe, there is a

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growing cross-border market. For example, we have offtakes and supply in 15 different European countries. In general, countries that have big agricultural sectors tend to have better conditions to grow biomethane production. These countries have access to large pools of agricultural waste, a major feedstock for biomethane plants. Looking at the European emission landscape, almost 10% of emissions come from the agricultural sector. It becomes quite important to address those emissions. Doing that through biogas, methane is captured and utilized that would otherwise have been emitted by the decomposing waste in the field, and you displace fossil fuels that might come from LNG or natural gas.

Q: Do you trade fossil commodities?

A: Our core strategy is to remain a pure environmental commodity trader. For example, we would not finance a fossil fuel plant. However, we do allocate our funding to renewable energy-focused assets because we believe there is a need to speed up the energy transition.

Q: Is it because you don't believe in the future of fossil gas?

A: We have a crucial role in the energy transition. Looking at the European REPowerEU target of 35 billion cubic meters [per year of biomethane production by 2030], it means we need to go from today's roughly 40 terawatt hours to producing 350 TWh of biomethane. That's not going to happen unless we mobilize, and parties like us deploy risk capital and expertise. If you're looking at the whole gas demand, 350 TWh is not a lot. So obviously, it's not a silver bullet; it's not going to solve all our energy demand. But it does solve part of the agricultural emissions. It also solves a waste management problem that you have in the agricultural sector and increases the energy independence of Europe. We're currently importing 90% of our energy in a world where you currently see deglobalization, and that, therefore, becomes an important topic for every country, not only in Europe. There's a lot that needs to be done to reach the 35 Bcm target. By some estimates, the capital that needs to be deployed towards biomethane projects is more than €60 billion (\$65 billion). Projects like these are dependent on regulatory certainty, clarity on carbon accounting methodologies and a robust market not limited to independent bilateral offtakers.

Q: Do your green projects already create value for your shareholders?

A: A trading company would not exist if it did not make a profit. It's natural that we create profitable business models within all our products. There are many parties in the market that have historically had the notion that going green comes at a non-recoverable or sunk cost. But if you look at electricity, the

cheapest power to produce is renewable. Of course, it does come with other challenges, like intermittency, that must be solved. We truly believe that we can create good business models for corporates to decarbonize. Putting the biomethane target in perspective, once we reach 350 TWh of production, it's still only around 10% of total gas demand. That means that parties getting active today will have a competitive advantage when securing adequate supply. Biomethane, and its decarbonization value, once fully priced in, makes biomethane very competitive. If society fails to price pollution fairly, it will not be competitive. But we don't believe in that world, and that is not the indications we are getting around the world. That doesn't mean that we will never consume fossil fuels because we have other challenges as well that we need to address.

Q: How does your project portfolio look? What projects do you invest in?

A: Historically, STX has been an asset-light company. Today, as a physical trader, we believe that we must move towards being a position-backed company, active in the asset space. We're prepared to back that up with capital, either on the debt side or on the equity side. In February, we announced two deals aimed at financing the biomethane market. One is to enter a strategic alliance with Dutch biomethane plant developer and operator Perpetual Next Conversions to advance biogenic CO2 solutions. The other is a financing partnership deal with major Dutch biomethane producer BioValue for the construction and development of the Groengas Cothen biomethane plant, which will add at least 80 gigawatt hours of renewable natural gas capacity per year.

Conventional project financing would require you to have a long-term fixed-price offtake to justify the deployment of project financing debt. Through BioValue, we managed to find a developer that shared our market views and ambition, which is why we decided to enter as a senior lender, helping them realize this biomethane plant. I think that's another example of how we use our skills and our expertise to help forward the market and reach the 35 Bcm [target].

Q: Do you expect the EU to reduce its climate targets?

A: This is what we're referring to as regulatory uncertainty. If we all agree that we need to decarbonize, it's very helpful to have clarity in the targets, and this is something that we are continuously challenged with. But that's not the only thing that will make it happen. Creating good and profitable business models for decarbonization is equally powerful as regulatory support. We know we can create impactful and profitable business models for corporations globally to decarbonize.

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Q: What are the key setbacks to achieving these climate targets?

A: A big issue for the energy transition is the permitting processes. It takes way too long to build a wind park, a solar park or a biomethane plant. That is the biggest bottleneck at the moment. Capital is there to be deployed, but solving other issues will unlock a lot of that capital flow.

Q: What do you think about Germany's recently launched power plant strategy?

A: We focus on renewables. We can see that Germany and other countries are focusing on deploying baseload power to make massive electrification possible. But that doesn't mean that biomethane doesn't play a role. If you're deploying combined-cycle gas turbine power plants, it can also run on biomethane. Increasing gas demand can have a positive impact on biomethane rollout if it's coupled with the right incentives, such as an increased emissions trading system [ETS] price.

Q: What are your expectations of overall gas demand?

A: We've seen a decrease in gas demand over the last two years, and there's a high probability that that could keep decreasing. However, with low gas prices, low ETS prices, there are other types of drivers that could increase the demand as well. I think it's largely dependent upon the environmental policies of the regulators and the longevity of them, or the predictability of them. That will very strongly impact future gas demand. Gas is definitely going to be there in the coming 10 years. We're not going to get rid of our gas consumption. But surely, we're going to deploy a lot of capital and resources to try to decrease the dependency on fossil fuels in general. Whether that's through electrification, renewable fuels, sustainable aviation fuels, biodiesel, bio-LNG, or through putting carbon capture. A lot of these things are in motion and are now required to be scaled. Finally, all of these solutions are part of our conviction, and are fueling our employees in our day to day.

Staff Reports