

Drax's 2014 results show decarbonization project on time, budget

By [Katie Fletcher](#) | February 24, 2015



[The Drax Group Plc is now generating 33 percent of its power plant's capacity from biomass with the full commissioning of a second converted unit to biomass in October.](#)

[Tim Portz](#)

The Drax Group plc announced 2014 full-year financial results, with Chief Executive Dorothy Thompson reporting that Drax's biomass transformation project was the company's main priority over the past year.

The priority is evidenced in that Drax now generates 33 percent of its capacity from biomass at its power plant in Selby, U.K., which the company said had good operational performance over the past year. Drax also reported that biomass investments are protecting its business from increasing carbon costs. According to Thompson, Drax's U.S.-based business is on the cusp of commercial operations with two pellet plants and a port facility. Strong retail sales growth at Haven Power was a highlight in Drax's retail business.

"In moving towards achieving our vision, we made good progress during 2014 on our biomass supply chain construction projects in the U.S., our biomass conversion project at Drax Power Station and our growth in electricity sales to businesses," Thompson said.

Key financial performance measures for the 12 months ended Dec. 31 include earnings before interest, taxation, depreciation and amortization (EBITDA) of £229 million (\$354 million) similar to the £230 million for 2013. Underlying earnings were £96 million for 2014 down from £142 million in the prior year. Total 2014 generated revenue was £2.45 million, compared to £1.78 million in the prior year. Additionally, the investor call mentioned that the current earnings outlook for 2015 reflects major deterioration in the commodity markets due to oil market decline.

Underlying earnings per share were 23.7 pence (37 cents) in 2014, down 33 percent compared to 35.3 pence in 2013. The decrease in earnings per share is due to higher depreciation and finance costs, reflecting biomass investment and associated financing. Total dividends were 11.9 pence per share for the year compared to 17.6 pence per share in 2013.

Thompson began the investor call by mentioning a change in the group structure of the Drax business due to the company's U.S. business going commercial in the next few weeks. Beginning in

March, Drax will be managed in three businesses with management teams and some group support. The three teams will be broken up into the U.S. biomass self-supply business Drax Biomass, the U.K. generation markets and trading fuel business Drax Power, and the U.K. retail business Haven Power.

The call emphasized Drax increased its biomass generation over the past year. Contributing to the 33 percent biomass capacity generation is the full commissioning in October of a second converted unit. Both units are said to be performing well, delivering 630 MW of capacity on a consistent basis. The third of the six generating units Drax plans to convert to biomass by the end of 2016 is scheduled to begin burning a high amount of biomass in quarter three of this year, depending on regulatory factors.

Over the year, the plant generated 26.7 terawatt hours (TWh) of electricity net sales, with biomass generation increasing to 7.9 TWh last year, compared to 2.9 TWh in 2013. Drax also reported good progress with near-term biomass volumes, with more than 6 million metric tons contracted for April 2015 to March 2016. Thompson said that 2014 was an unusual year because of a disarray in continental Europe in some of the structures and support for biomass demand. This led to many biomass generators experiencing a reduction in demand, and combined with a second warm winter, allowed a good deal of biomass to be available in the spot market where Drax was in a good position to purchase it. Thompson said this is expected to be a short-term phenomenon.

In the U.S., Drax is nearing commissioning on two 450,000 metric-ton-per-year pellet plants in Amite, Mississippi, and Morehouse, Louisiana, as well as a pellet port facility in Baton Rouge. "We continue to expect commercial operations to commence at our first pellet plant and port facility in the first quarter of 2015, with commercial operations following at the second plant in the second quarter," Thompson said.

The 3-million-ton pellet port facility is expected to receive its first shipment in quarter two of 2015. These continued investments are reflected in Drax's capital expenditure of £201 million for 2014. The capital investment is on track to complete biomass transformation in line with the original cost guidance of £650 to £700 million, including three unit conversions, U.S. supply chain investments and Industrial Emissions Directive compliance. Drax is continuing to assess options for value-enhancing investments, including the potential of a third 500,000 metric-ton-per-year pellet plant near the U.S. Gulf.

All of Drax's biomass is procured against industry leading sustainability policy, and was fully compliant in 2014, delivering more than 80 percent carbon lifecycle savings versus coal. Drax shared some data, which showed that the company produced 34 grams of CO₂ per mega joule (MJ) in 2014, well below the greenhouse gas (GHG) target of 79 g CO₂ per MJ, which the U.K. Department of Energy and Climate Change is currently working towards establishing in mandatory standards set for October 2015. As a comparison, coal produced 280 g CO₂ per MJ. Currently, 80 percent of Drax's biomass is sourced from the U.S. South. During the investor call, Thompson drew attention to the fact that in 2012 it was estimated that there was 100 million tons surplus growth over removal, which is why Drax imports from the U.S.

Thompson also mentioned that next month an industry sustainability standard and certification process will be launched by the Sustainable Biomass Partnership, as [reported in December by Biomass Magazine](#).

Regulatory framework is one key influencing factor on Drax's business right now. Thompson stated that it's been a very uncertain year for the future support of biomass conversion. In fact, at the start of 2014 Drax had expected to be awarded two early contracts for difference (CfD), or investment

contracts, to support the second and third unit conversions. In April, the government concluded that the second unit was no longer eligible for such a contract, so Drax converted the second unit under the Renewable Obligation. Now the company has also signed an early investment contract with the government for the third unit to be converted that is subject to state aid clearance, which is still under review.

In February, [Biomass Magazine reported](#) that the European Commission announced it has opened an in-depth investigation to assess whether the U.K.'s plans to support the biomass conversion of the coal-fired Lynemouth power plant are in line with European Union state aid rules. The Lynemouth project is one of eight renewable energy projects selected for the first CfDs under the U.K.'s electric market reforms, in addition to Drax's biomass conversion unit. Additional information on regulatory impacts that occurred during the first half of the year were detailed in [Drax's operational update](#) issued in July.

In June, Ofgem referred the electricity wholesale and retail markets to the Competition and Markets Authority, the main focus being on supply competition in the residential market. The CMA initiated a market investigation to determine whether any feature, or combination of features, of these markets prevents, restricts or distorts competition in the sector. In November 2014, Drax reached a settlement agreement with Ofgem regarding non-compliance with their obligations under the Community Energy Saving Program. The settlement requires Drax to contribute a total of £28 million, which will see up to £20 million benefit vulnerable energy consumers through a program of work to be developed with the charity National Energy Action.

"As ever, it is a complex picture for our stakeholders to evaluate, but I am confident that our transformation will deliver an attractive future for the business and our shareholders, whilst delivering a significant amount of cost effective renewable power to U.K. consumers and making a meaningful contribution to the U.K.'s 2020 climate change targets," Thompson said.