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# Drax shares fall on concern for subsidies

By Rebecca Bream

Shares in UK power generator [Drax Group](#) fell sharply on Wednesday after the government announced changes to subsidies for renewable energy which were less generous than investors had expected.

The group's main asset is the Drax power station in Yorkshire, the UK's largest coal-fired power plant. In an effort to reduce the plant's carbon emissions, Drax has for several years been burning increasing amounts of biomass – renewable fuels such as forestry and agricultural waste – along with coal.

As part of the government's review of "renewable obligation certificates" (ROCs) used to subsidise renewable power, the market had been hoping that Drax would qualify for the full subsidy if it converted its boilers to burn 50 to 60 per cent biomass as well as coal.

But the government said on Wednesday companies would only receive a full ROC per megawatt hour if the power was generated by burning at least 90 per cent biomass. Drax's previous plan to partially convert its six boilers to biomass would therefore only earn 0.6 of a ROC per megawatt hour, said Angelos Anastasiou, utilities analyst at Investec.

Another change to policy is that ROCs will be awarded for each boiler of a power station, rather than for the whole plant.

Drax shares fell as much as 25 per cent after the news but had recovered slightly by midday in London, trading down 92.9p or 17.9 per cent at 425.6p.

Drax said it had changed its plans in light of the government's decision, and was aiming to fully convert the plant to burn biomass, starting with three of the six boilers.

Dorothy Thompson, Drax chief executive, said: "It will take some time to develop all of the sustainable biomass supply chain, but we believe that within approximately five years Drax could become a predominantly biomass fuelled plant. We are currently refining our previously announced £650m to £700m strategic capital investment plan, but remain confident of the overall scale."

The company added that the policy changes did not affect "in any material way" the returns Drax could earn in the future. But Mr Anastasiou at Investec said Drax was

“putting a brave face on it”, and that trying to burn a higher proportion of biomass increased the risks for the company, especially in trying to secure enough fuel.

Biomass has a lower calorific value than coal and so larger amounts are needed to produce the same amount of power. The UK does not produce enough biomass to fulfil Drax's needs, and the group said it imported most of its biomass, such as wood waste, peanut husks or olive cake, from North America.

One of the main advantages of biomass-fired plants is that the output is not intermittent, like windfarms, so can be used to supply the grid with reliable, baseload power. Npower, the UK power generator owned by RWE of Germany, has fully converted its coal-fired power station at Tilbury on the Thames estuary to burn biomass, mainly waste wood pellets from the US and Canada.

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