

Warning to Investors 2017:

Drax – gambling on biomass, overly dependent on subsidies - Time to Divest

Drax has invested £673 million on converting half its generating capacity to biomass. It is risking your money and your planet.



IF YOU HAD LISTENED TO US IN 2014 AND DIVESTED YOU WOULD HAVE MADE ALMOST TWICE WHAT YOU WILL IF YOU SELL NOW... DIVEST NOW BEFORE THIS DINOSAUR DIES ON TOP OF YOU.

RISK TO YOUR INVESTMENT:

Since 2014: Shares down 49%.

Profits down 16%. Dividends down 94%

“REDUCTION IN PROFITABILITY YEAR ON YEAR” (Drax’s 2016 Annual Report)

Drax’s share price nosedived in 2014 and has not recovered since. Without public subsidies, Drax Plc would have been £165 million in the red in 2016. Even with subsidies the company’s profitability, and dividends, continue to decline.

DRAX’S LATEST FINANCIAL GAMBLERS

This February, Drax spent £358m on acquiring Opus Energy and plans for four new gas power stations, two of which don’t even have planning consent. Drax admits it will need Capacity Market subsidies to make those viable – a big financial gamble. And this month, Drax has bought a ‘distressed’ Louisiana pellet mill pellet mill and hopes to acquire another one in Texas. The former owners, German Pellets GmbH went bankrupt because they could not make the economics work. Clearly another big gamble for Drax!

DRAX’S RELIANCE ON SUBSIDIES IS HIGH RISK AND FINANCIALLY UNSUSTAINABLE

Not only is Drax dependent on subsidies in order to make any profit at all, but its long-term strategy depends on getting even more of them: Drax is hoping for more Contracts for Difference to convert its coal-fired units to biomass, having finally acknowledged in its latest Annual Report that it expects otherwise to have to close them by 2025.

And now, Drax is hoping for Capacity Market Payments for new gas power stations, too – all at a time when the Government has made it clear that it wants to reduce the energy sector’s dependence on subsidies.

In 2015 the Government abolished one of the subsidies Drax was receiving, Levy Exemption Certificates (LECs). Drax’s Annual Report 2016 attributes a £33m fall in gross margins since 2015 partly to the loss of LECs. Drax lost a Judicial Review against the government’s decision. The Court’s decision suggests that the Government also has the power to cut off Drax’s main source of subsidies – Renewable Obligation Certificates, of which Drax now receives around £332 million a year.

Growing evidence about the harm caused to biodiversity, forests and the climate is making an end to Drax’s ROCs more likely. Already this year, the Government has rejected Drax’s calls to allow them to bid for another Contract for Difference, by excluding coal-to-biomass conversions from the 2017 auction.

GOVERNMENT IS WORRIED ABOUT BIOMASS.

There is mounting evidence from scientists, NGOs and journalists that Drax is buying pellets sourced from clearcut biodiverse and carbon-rich wetland forests in the southern US. Scientific studies show that the climate

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impact of burning such wood pellets can be worse than that of burning coal even when looked at over a period of several decades. Recently, the independent think-tank Chatham House published a report which concluded that due to the otherwise very high carbon impacts: "*Support [for biomass electricity] should be restricted to sawmill residues, together with post-consumer waste*".

Previously, in 2014 Prof. David Mackay, then scientific advisor for DECC, co-authored a report published by DECC which showed that several 'realistic' fuelling scenarios are up to *3 times worse than coal* for between 40 and 100 years... at a time when we urgently need to be reducing emissions. A new follow-up report which BEIS has commissioned and published, has confirmed that four of the High Carbon Scenarios are likely or moderately likely to be happening now or to happen in future, and that biomass burned in power stations today may be failing the Government's own emissions reduction target if properly accounted for.

UK carbon accounting only requires Drax to declare carbon emissions from producing, processing and transporting the biomass, not from actually burning the trees which Drax admits is more per unit of energy produced than coal. This flawed system allows Drax to claim an *86% improvement* over coal. The government will have to align its practice with its policy to take account of 'carbon impacts of the whole system'. **Drax will then not meet emissions thresholds that entitle it to government subsidy.**

'SUSTAINABILITY STANDARDS'

On 1 December 2015 the UK Biomass Sustainability and Greenhouse Gas

Standards became mandatory and subsidy is conditional on them being met. Drax is claiming that they meet those standards, but evidence showing otherwise is mounting and may soon become impossible for the government and Ofgem to ignore.

The US Securities and Exchange Commission has received a complaint from 34 investment groups, controlling \$53bn of assets, against Enviva, Drax's biggest supplier of wood pellets. Enviva was accused of misrepresenting to investors the climate-benefits of wood pellets by using the same flawed carbon accounting process that the UK government and Drax do.

Enviva routinely sources from clearcut, highly biodiverse, hardwood, native forests. Enviva is Drax's main pellets supplier. If the complaint against them is upheld by the US authorities, this could have serious consequences for Drax's business, too.

PELLET MARKETS AND CURRENCY VOLATILITY

Drax is 98% dependent on imported biomass. In 2016 it burnt pellets made from 13.2m tonnes of wood, more than the entire wood harvest of the UK.

Due to its position as a pellet producer and consumer, Drax is particularly vulnerable to price volatility. If pellet prices drop, as happened in 2016, its pellet mills run at a loss. If prices increase then, over time, the costs of generating electricity go up.

Last year, Drax benefited from having hedged against the drop in sterling, but this "cushion" ends in 2021. If the pound continues to stay low, Drax's finances will be hit.

DIVEST and RE-INVEST IN THE FUTURE

We say Drax's investment in conversion to Biomass is dangerous folly – from a business and a planetary point of view. We therefore ask you to DIVEST from Drax. We ask you not to invest in the expansion of bio-energy which has catastrophic implications for the future of our planet. Get something for nothing. Solar, wind and water energy are free at source and from international market vagaries, genuinely low-carbon and increasingly cheap to install. Investing in energy efficiency and a smart grid yields long term benefits.

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