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Drax Jumps to 5-Month High After EU Approves Biomass Subsidy

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By [Rachel Morison, Bloomberg](#)

Shares in Drax Group Plc surged to the highest since July after the European Union approved a U.K. government subsidy to support [the conversion of one of its coal-fired units to biomass](#).

The project's contribution to increasing the share of renewable energy produced in the U.K. outweighs any potential distortions of competition that could be triggered by government support, the EU regulator said in an e-mailed statement on Monday. The European Commission opened an investigation in January to check that the subsidy wouldn't distort competition.

Three units at [Drax's power station](#) remain coal-fired. The plant supplies 7 percent of the U.K.'s electricity, according to the company's website. The subsidy is a so-called contract for difference (CfD) where the government pays a premium on top of the market price to make up 100 pounds a megawatt-hour until 2027.

"We now look forward to fully converting the unit to run on sustainable biomass," Drax Chief Executive Officer Dorothy Thompson said in an e-mailed statement. "With the right conditions, we can do even more, converting further units at Drax to use sustainable biomass in place of coal."

Shares rose as much as 11 percent to 358.90 pence (\$4.46), the highest level since July 22, before trading at 347.40 pence by 12:04 p.m. on Dec. 20 in London. Drax gained 42 percent this year, while the FTSE 100 Index of the U.K.'s biggest companies is up 12 percent in 2016.

"Achieving approval for the CfD was crucial for Drax's economics going forward," Jefferies Group LLC said in an e-mailed note.

Societe Generale SA upgraded Drax to a 'Buy' rating ahead of the announcement, saying approval would add around 100 million pounds a year to earnings.

Drax has said it would only be able to convert more of the station to biomass with the help of subsidies. Converting a fourth unit would have "limited upside potential" due to the uncertainty of the U.K.'s carbon tax after 2021, said Ashley Thomas, an analyst at Societe Generale in London.



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Richard P. Vlosky, Ph.D.
Director, Louisiana Forest Products Development Center
Crosby Land & Resources Endowed Professor of Forest Sector Business Development
Room 227, School of Renewable Natural Resources
Louisiana State University, Baton Rouge, LA 70803
Phone (office): (225) 578-4527; Fax: (225) 578-4251; Mobile Phone: (225) 223-1931
Web Site: www.LFPDC.lsu.edu



President, Forest Products Society; President-Elect, WoodEMA i.a.

