

Drax Power Station Biomass Conversion Project

Up to £100m of Senior Debt



Summary

The Green Investment Bank (GIB) committed an initial £100m of senior debt funding to Drax Group plc in support of its conversion of three of six generating units from coal to sustainable biomass.

Drax power station is located in North Yorkshire. It is the largest power station in the UK with a generating capacity of 3,870MW. It typically provides around 7% of the UK's electricity supply.

GIB's investment in Drax is consistent with its strategy of accelerating the UK's transition to a greener economy on a cost effective basis. Converting coal to biomass provides substantial greenhouse gas emissions savings by displacing the dirtiest fossil fuel with biomass – a renewable energy source available in abundant supply worldwide. Coal conversion is also cost effective, delivering carbon emissions savings many times greater than certain other renewable energy technologies and at lower subsidy levels. Drax subsequently refinanced £50m of the original £100m with an Infrastructure UK guarantee to Friends Life.

Green Impact

- Potential to contribute more than 10TWh of renewable electricity annually, c. 10% of the UK's 2020 renewable electricity target.
- Saving in the region of 9m tonnes of CO₂e*.
- This is the equivalent of meeting the electricity needs of c. 2m homes and achieving CO₂e savings equivalent to taking around 3m cars off the road.

GIB requires that any large scale biomass power project meets strict sustainability criteria, including minimum requirements for the greenhouse gas emissions associated with the supply chain, broader feedstock

sustainability requirements (for example avoiding primary forest stock and protecting biodiversity), as well as robust monitoring and verification requirements. The Drax conversion meets all of these requirements.

As part of its biomass sustainability criteria, GIB has a preference for forest-sourced biomass derived from forest and saw mill residues. Forest and sawdust residues include the thinnings, spare offcuts and shavings from the forestry harvest and wood product preparation process. These residues would typically go to waste and their use for fuel does not accelerate the rate of harvest of the forest. Accordingly, this should not affect the level of carbon stock in the forest or take away supply from use in other industries.

*After taking account of the estimated emissions associated with the supply chain (compared to Drax's reported fuel mix in 2011)

Finance

- The GIB term loan facility of up to £100m was made alongside the Prudential and M&G UK Companies Financing Fund who committed equivalent funding on similar terms.
- GIB's participation in the term loan facility was an integral part of Drax's £800m capital raising programme, which included £225m of senior debt, a resized £400m revolving credit facility and an equity raising of £190m.

“ We are very pleased to have successfully secured this financing. We believe it is a clear demonstration of support from the investment community for our biomass strategy. We particularly welcome the involvement of the UK Green Investment Bank. ”

Tony Quinlan,
Finance Director, Drax Group plc



The UK Green Investment Bank was formed as a public company in May 2012. With £3.8 billion of funding from the UK Government, it is the first bank of its kind in the world. It is a “for profit” bank, whose mission is to accelerate the UK's transition to a more green economy, and to create an enduring institution, operating independently of Government.

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