Half Year Results

6 Months Ended 30 June 2013

30 July 2013

Agenda

H1 2013 Business Performance

Dorothy Thompson

Chief Executive

H1 2013 Financial Review

Tony Quinlan

Finance Director

Business Review

Dorothy Thompson

H1 2013 Summary

Dorothy Thompson – Chief Executive

H1 2013 profits in line with expectations

Increasing cost of carbon
Good operations - extensive activity at Drax site

Strong near-term hedge

Doubled 2014 hedge in H1

Biomass transformation

First converted unit performing to plan
Capital investments on schedule and budget

EBITDA
£120m

Underlying Earnings Per Share
17.3p

Interim Dividend
8.7p/share (£35m)

Operational Performance

Group

Maintaining world class standards of safety

- > 50% increase in hours worked to 3.4m hours
- 4,200 safety inductions (H1 2012: 2,900)

Coal

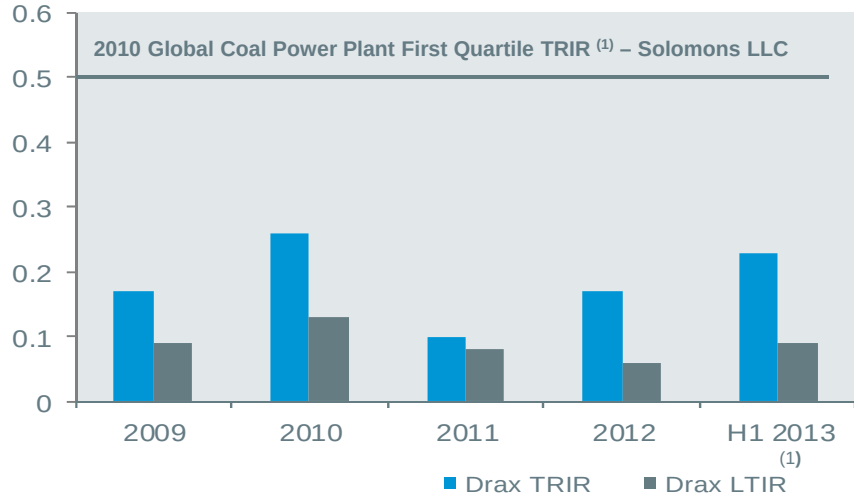
82% Availability (H1 2012: 85%)

- 7.6% forced outage rate (H1 2012: 4.4%)
  - Impact of ash bridge
- Long-term FOR target remains 5%
- 11.1% planned outage rate (H1 2012: 10.8%)

78% Load Factor (H1 2012: 82%)

(2) By heat
(3) H1 2013 includes 0.6% co-firing in Q1 and 6.2% from converted unit in Q2

Safety Performance



(1) TRIR = Total Recordable Injury Rate, LTIR = Lost Time Injury Rate

Fuel Mix

	H1 2013		H1 2012		12m 2012
	Tonnes	Mix%(2)	Tonnes	Mix%(2)	Mix%(2)
Coal	4.3Mt	88%	4.6Mt	87%	90%
Pond Fines	0.3Mt	5%	0.4Mt	4%	4%
Petcoke	-	-	0.1Mt	2%	1%
Biomass (3)	0.4Mt	7%	0.1Mt	2%	2%
Biomass R&D	-	-	0.4Mt	5%	3%

Operational Performance – Biomass

Technical performance to plan

Unit fuelled using existing co-firing systems

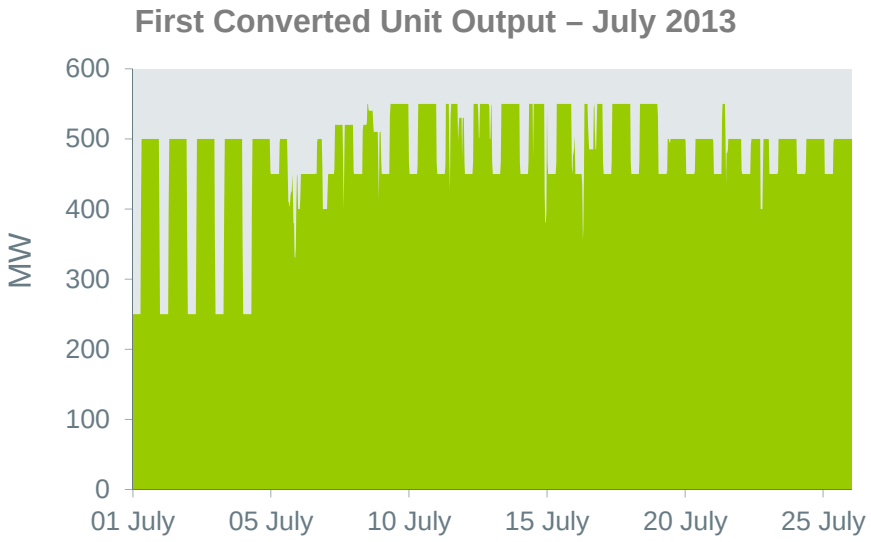
- Output up to 585MW (c.10% lower than coal) with stable combustion and no loss of flexibility
  - No significant slagging, fouling or corrosion
  - Significant NOx benefit vs. coal demonstrated
  - Efficiency modifications effective

76% Availability

- Technical outage rates in line with plan
  - Forced outage rate 13%
  - Planned outage rate 13%

57% Load Factor

- Temporary fuel delivery systems



Source: Drax, Balancing Mechanism Reporting Agent data

Haven Power

Credit-efficient route to market

Targeting 12 - 15TWh by 2015

- Sales growth remains business priority
  - I&C and SME markets (1)

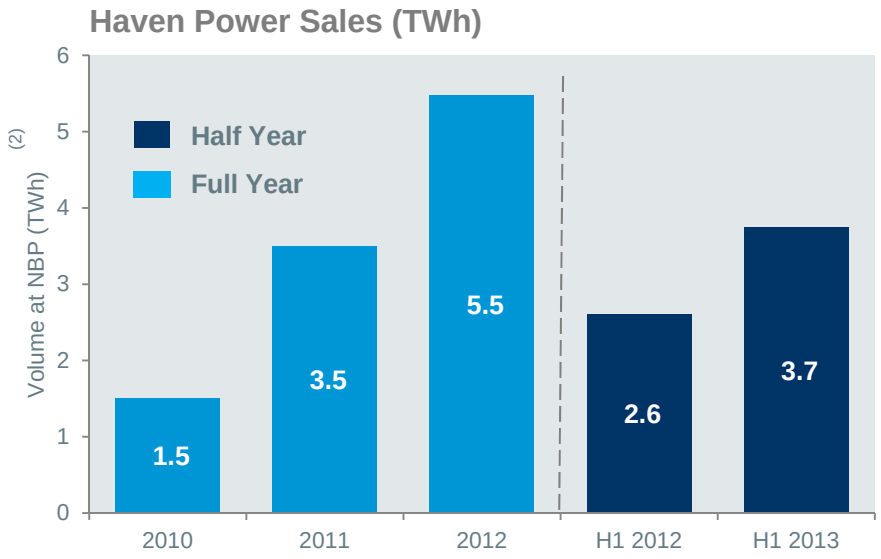
Substantial growth 2013

- Retail sales £323m (H1 2012: £219m)
- 7.3TWh already contracted for next 12 months
- Bad debt experience remains low

Significant customer wins

müller

Santander



1) I&C = Industrial and Commercial, SME = Small and Medium Enterprises
2) NBP = Notional Balancing Point

Positions Under Contract

Positions Under Contract as at 22 July 2013	2013	2014	2015
Power Sales – TWh	**24.4**	**17.1**	**5.1**
Comprising:			
▪ Fixed price TWh at average achieved price £ per MWh	23.1 @ 51.4	14.5 @ 53.5	3.2 @ 56.1
▪ Fixed margin and structured contracts TWh	1.3	2.6	1.9
Carbon – TWh equivalent	**23.2**	**14.5**	**4.5**
Emissions allowances hedged (market purchases and structured contracts)			
Solid Fuel – TWh equivalent	**25.6**	**22.6**	**13.1**
At fixed price / hedged (including structured contracts)			

Almost fully hedged for 2013; more than doubled 2014 hedge in H1

Framework for hedging

- Coal business – shorter term margin hedge
  - Power market liquidity generally limited to 4 seasons forward
- Biomass business – long-term fuel hedge
- Sub-investment grade
  - Credit access and collateral exposure management

Going forward will disclose only power sales position for current year and year +1

H1 2013 Financial Review

Tony Quinlan – Finance Director

EBITDA

£120m

Net Cash (2)

£245m

Underlying Earnings Per Share (1)

17.3p

Interim Dividend

8.7p/share (£35m)

- H1 2013 profits – in line with expectations
- Year on year reduction – increasing cost of carbon

- Strong balance sheet
- Strong hedge – doubled 2014 forward sales in H1

1) Excl. unrealised gains on derivative contracts of £123m (less tax effect)

2) Cash of £460m (incl. short-term investments of £20m) less borrowings of £215m

Income Statement – Summary

	H1 2013	H1 2012	% Year-on-Year
Revenue	919	868	
Cost of Sales	(703)	(613)	
Gross Margin	**216**	**255**	
Operating Costs	(96)	(101)	
EBITDA	**120**	**154**	**-22%**
IAS39 Unrealised Gains / (Losses) on Derivative Contracts	123	21	
Depreciation	(29)	(28)	
Operating Profit	**214**	**147**	
Net Finance Costs	(8)	(6)	
Profit Before Tax	**206**	**141**	
Tax Charge	(42)	(20)	
Reported Earnings	**164**	**121**	
Underlying Earnings	**70**	**106**	**-34%**
Reported Basic Earnings Per Share (pence)	**40.8**	**33.1**	
Underlying Basic Earnings Per Share (pence)	**17.3**	**28.9**	**-40%**
Interim Dividend Per Share (pence)	**8.7**	**14.4**	**-40%**

Income Statement – Tax

Corporation Tax (CT) rates

- 23.25% for 2013 and 24.5% for 2012

Adjustments to prior year taxes now agreed with HMRC

- R&D tax relief and capital allowance claims

Impact of reduction in CT rate on deferred taxes

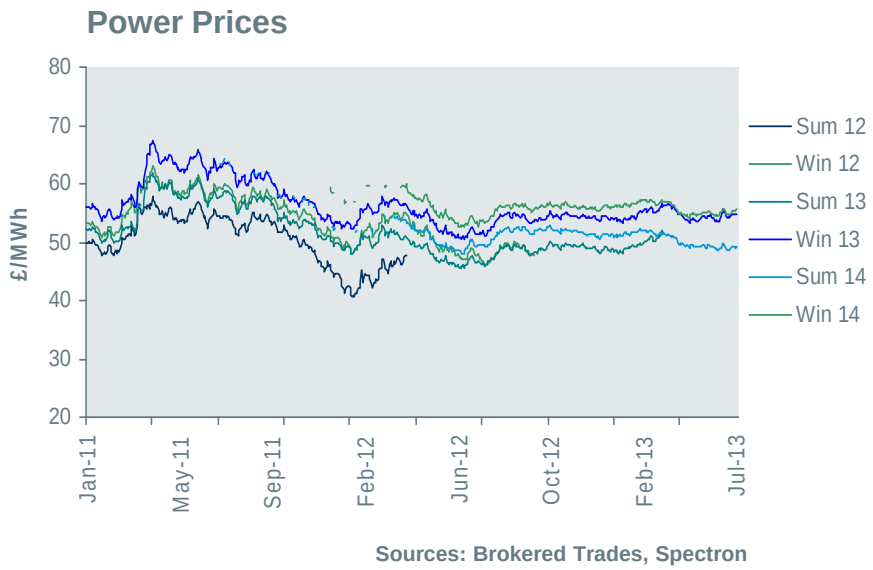
- Revaluation of deferred tax liability
- H1 2012: 1% reduction in CT rate
- H2 2013: 3% reduction in CT rate, to be recognised when legislation enacted (July)
  - Results in underlying deferred tax credit c.£20m

H1 2013 Tax

In £m (unless otherwise stated)	H1 2013	H1 2012
Profit Before Tax	**206**	**141**
Tax at CT Rate	48	35
Adjustment to Prior Year Taxes	(6)	(8)
Impact of Reduction in CT rate on Deferred Tax	-	(7)
Tax Charge	**42**	**20**
Effective Tax Rate – on Profit Before Tax	**20%**	**14%**
Effective Tax Rate – on Underlying Profit Before Tax	**16%**	**12%**

Income Statement – Revenue

In £m (unless otherwise stated)	H1 2013	H1 2012
Total Revenue	**919**	**868**
Wholesale Power Sales	582	627
Retail Power Sales	323	219
Other Revenues	14	22
Electrical Output (Net Sales) (TWh)	**12.6**	**13.6**
Average Achieved Price (£ per MWh)	**50.1**	**52.0**

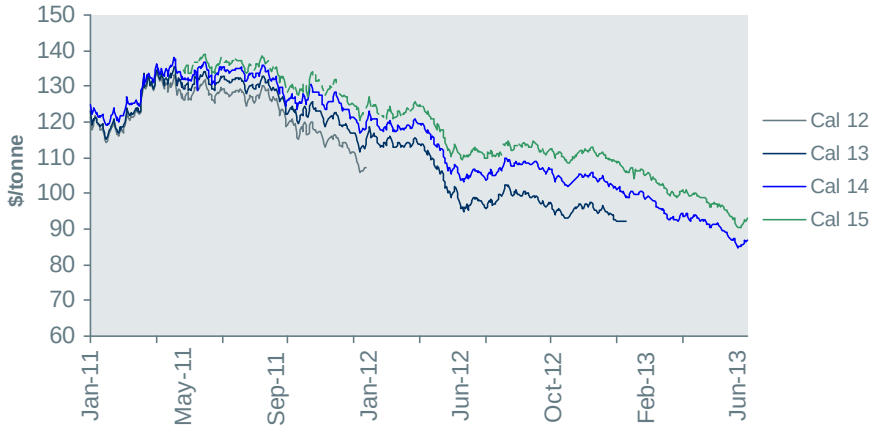


Sources: Brokered Trades, Spectron

Income Statement – Cost of Sales

	H1 2013	H1 2012
Total Cost of Sales	**£703m**	**£613m**
Fuel Costs (1)	£325m	£417m
Carbon Tax	£14m	-
Cost of Carbon Allowances	£70m	£38m
Cost of Power Purchases	£146m	£58m
Grid Charges and Other Retail Cost of Sales	£148m	£100m
Average Fuel Cost (excl. CO_2 costs) (2)	**£26.9/MWh**	**£30.7/MWh**
Number of Purchased CO_2 Allowances Expensed	**10.2m**	**6.5m**
Average Cost of Purchased CO_2 Allowances	**£6.9/tonne**	**£5.9/tonne**

Coal Prices (API 2)



Source: McCloskeys, Brokered Trades

Carbon Prices

Source: ICE ECX

(1) H1 2012 includes £15m additional biomass R&D costs
(2) Incl. carbon tax (charged on coal deliveries and recognised as fuel cost on burn)

Fuel and ROC Accounting

Income statement and balance sheet include value of ROCs / LECs generated

Income statement – cost of fuel

- H1 2013 £339m (£26.9/MWh), comprising:
  - Cost of coal, carbon tax and biomass
  - Less estimate ROC / LEC value generated

Balance sheet - ROC / LEC assets

- £60m at 30 June 2013, comprising:
  - Estimate of cumulative ROC / LEC value generated not sold

Subsequent sale of ROCs / LECs

- Sales value in revenue and receivables
- Original estimate balance sheet value charged to cost of sales

ROC receivable cash flows

- Options to accelerate ROC cash flows

H1 2013 Income Statement – Fuel Costs

Net Fuel Costs Comprises:	£m	£/MWh
Coal, Carbon Tax and Biomass	380	30.2
ROC / LEC Value Generated	(41)	(48.0)

H1 2013 Balance Sheet – ROC and LEC Assets

ROC and LEC Assets	£m
At 31 December 2012	**19**
ROCs / LECs Generated	41
Sold or Utilised	-
At 30 June 2013	**60**

Operating Costs

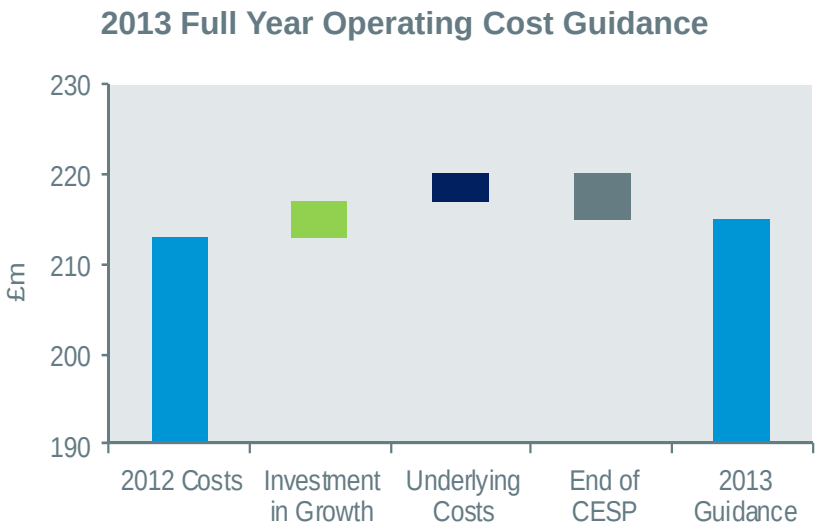
Operating costs – £96m in H1 2013

H1 2013 total operating cost decrease £5m

- End of CESP (1) -£3m

Full year 2013 operating cost guidance unchanged at £215m (2012: £213m)

- Double outage year
- Investment in growth: Haven and US business +£4m
- Underlying cost inflation +£3m (1%)
- End of CESP (1) -£5m



(1) CESP = Community Energy Saving Programme

Capital Expenditure

Biomass transformation capex on schedule and on budget

H1 2013 total capex £138m

- Inc. £106m for biomass transformation

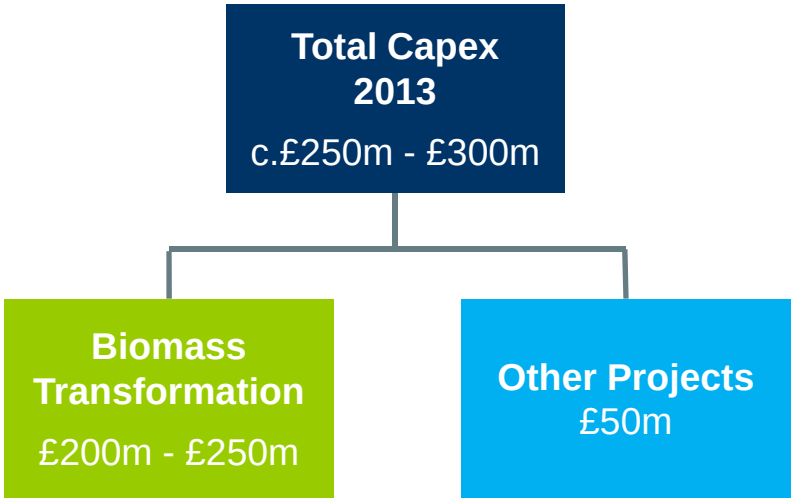
Full year 2013 total capex guidance unchanged at c.£250m – £300m

- Incl. £50m for plant efficiency and other projects (non-biomass)

End 2014 expect:

- Drax site biomass investment largely complete
- US investments very well advanced

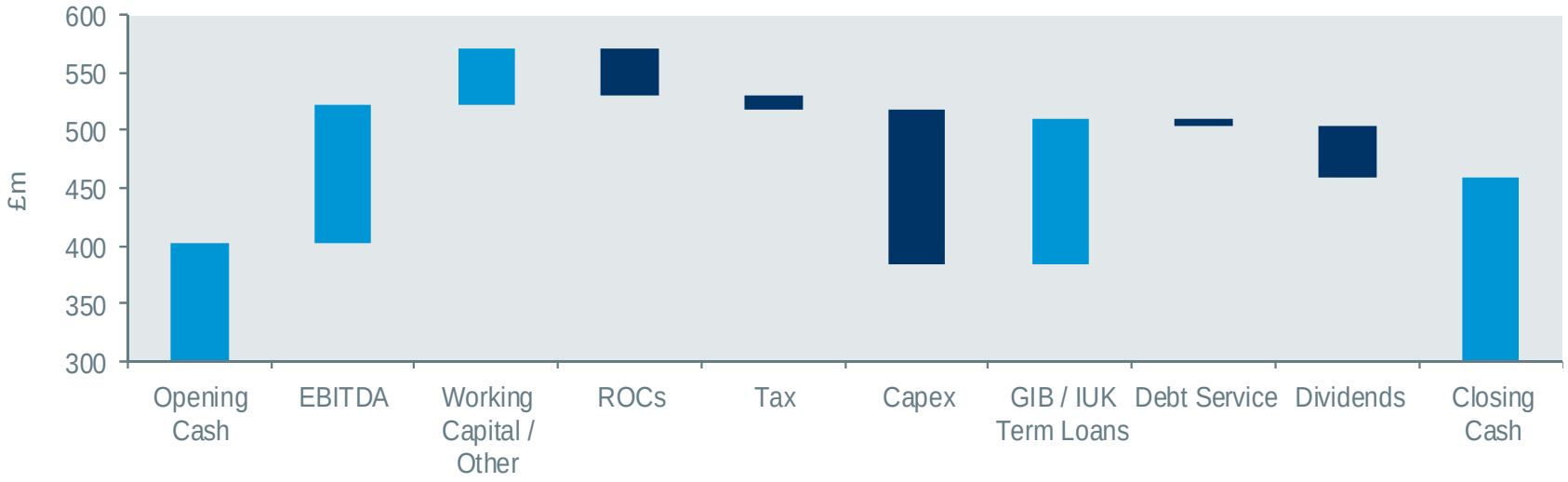
2013 Total Capex Guidance



Biomass Transformation Capex

Drax (excl. IED) and US Supply Chain	£m
Previous Years	185
2013	200 – 250
2014	150 – 200
Total to end 2014	**550 – 600**

Cash Flow



Working Capital / Other	ROCs / LECs	Tax	Capex	Dividends	Closing Cash
£50m	(£41m)	(£13m)	(£133m)	(£44m)	£460m
Biomass stocks outflow (£7m) Stocks of 0.4Mt Coal stocks outflow (£44m) 0.8Mt increase to 2.4Mt Other net inflow £101m Largely seasonal	Increase in ROCs / LECs	Settlement 2012 liability	Cash payments for capex	Final 2012 dividend of 10.9p/share	Net cash after borrowings £245m

Funding and Debt Facilities

Financing structure enhanced in 2013

£75m Friends Life term loan (4-5 year maturity)

- Underpinned by guarantee from Infrastructure UK
- Replaced £50m of £100m UK Green Investment Bank term loan

Commodity trading line – capacity extended

Biomass funding secured in 2012

New equity: £190m(1)

New debt

- £100m M&G term loan facility (6-8 year maturity)
- £50m UK Green Investment Bank term loan (6-8 year maturity)

£400m working capital and LC(2) facility

- 225 basis points margin over LIBOR
- Matures April 2016

Credit rating BB+

- Robust sub investment grade business model
- Negligible additional collateral calls

New Equity
£190m(1)

New Debt
M&G £100m
UK GIB £50m
Friends Life £75m

Working Capital and LC Facility
£400m

Commodity Trading Line

(1) Gross proceeds
(2) LC = Letter of Credit

Financial Review – Summary

Strong balance sheet – biomass financing enhanced

Biomass transformation investments – on schedule and on budget

2013 EBITDA impacted by increasing cost of carbon

Potential for substantial EBITDA growth from 2015 and beyond

Biomass Sustainability

Dorothy Thompson – Chief Executive

All Drax biomass procured against well established sustainability policy

- Sustainable sourcing
  - No depletion of carbon stock at source
- Low GHG(1) emissions compared to coal and gas
  - 5th year of life cycle carbon foot-printing
- Independent audit of supply chain

DECC working closely with industry to develop appropriate and robust mandatory standards

- No change expected in policy direction
- Publication of DECC decisions imminent

Large biomass users working together on common procurement provisions for sustainability

DEPARTMENT OF ENERGY & CLIMATE CHANGE

"These proposals make clear our commitment to ensuring that the use of biomass is sustainable, both for the environment, and for the consumer"

Rt Hon Ed Davey MP

Biomass Electricity and CHP Heat – Ensuring Sustainability and Affordability

(Sept 2012)

(1) GHG = greenhouse gas

Electricity Market Reform (EMR)

CFDs

Consultation in progress

- Strike prices, some key terms, process for CFDs including early (FID) CFDs

Timetable

- December 2013 final prices published
- April 2014 CFD FID awards
- Contract effectiveness subject to EU state aid approval
- Normal CFD on later timetable

57 applications for CFD FID comprising 18GW across technologies

- No automatic right

Capacity Market

Development progressing

- First auction in 2014 for 2018 delivery

Potential option for coal units only

National Grid consulting on provisions pre-2018

- Interim measures for demand and supply response

DEPARTMENT OF ENERGY & CLIMATE CHANGE

"Conversion (…) to sustainable biomass offers a quick, cost-effective way to rapidly decarbonise electricity generation in the short to medium term, as well as contributing to security of supply"

EMR Delivery Plan (July 2013)

Draft CFD Strike Prices

£/MWh (1)	2014-15	2015-16	2016-17	2017-18	2018-19
Onshore Wind	100	100	100	95	95
Offshore Wind	155	155	150	140	135
Biomass Conversion	105	105	105	105	105

(1) In 2012 prices and subject to consultation

Biomass Fuel Purchasing and Supply Chain

Fuel contracting

Secured rights to fuel for first unit

- c.2Mt for 2013/14 ROC year

Good progress with subsequent units

- > 3Mt for 2014/15 ROC year
- Continue negotiations for the third unit
- Key suppliers: Enviva, Green Circle, Pinnacle, Rentech, Plum Creek

Ports and shipping

Agreements in place for expansion of UK port capability

- Tyne – existing 2Mtpa capacity
- Hull – building 1Mtpa capacity
- Immingham – 3Mtpa capacity under construction
- Further capacity under negotiation

New biomass rail wagons

First 50 well advanced

- Fully operational Q1 2014
- Efficient load / unload with full weather protection
- Carry up to 50% more than current trains

US Gulf Pellet Operations

Construction contracts concluded

2 pellet plants – combined capacity 900kt pa

- Amite (Mississippi) and Morehouse (Louisiana)

Port facility – export capacity up to 3Mt pa

- Baton Rouge (Louisiana)

Lead contractors: Haskell (pellet plants) and Gray (port)

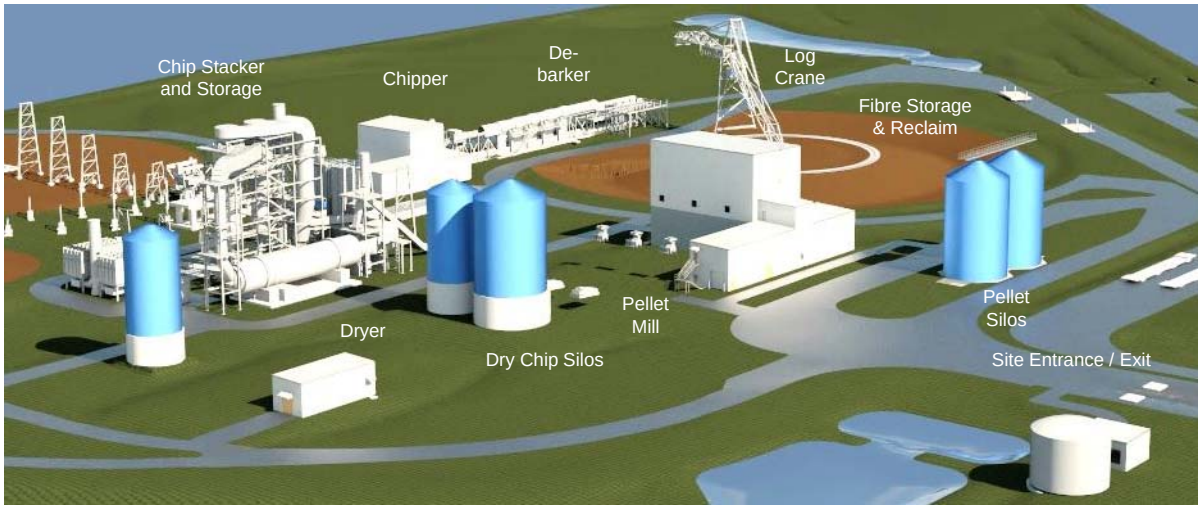
Total capex c.£225m

Summer 2013 construction start

Targeting commercial operations:

- Amite, Baton Rouge – Q1 2015
- Morehouse – Q2 2015
- 6 months further to reach full capacity

Amite Pellet Plant – Site Layout



Amite Site – Ground Clearing (July 2013)

Transition to Permanent Biomass Facilities

Transition of 1st converted unit

Q4 2013 phased commissioning of new on-site facilities

- Fuel delivery and distribution
- Storage – 1 dome in service
- Unit modifications

On schedule to be complete by year end

2014 – schedule

End Q1 first 50 bespoke wagons in service

Storage:

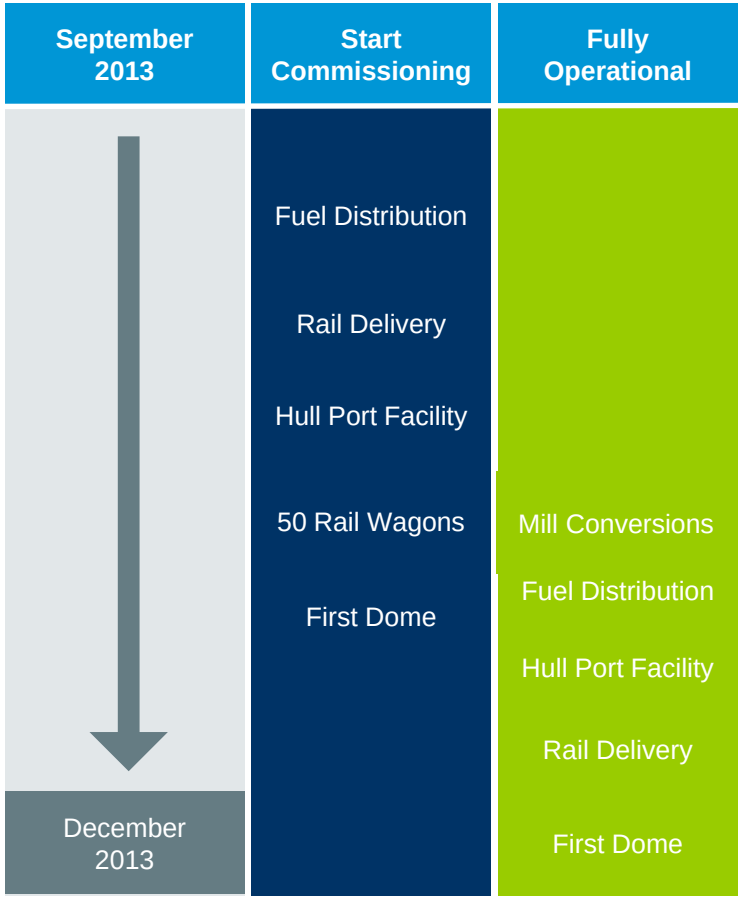
- Q1 – 2 domes in service
- Q3 – all 4 domes in service

Summer 2014 conversion of 2nd unit

Optimisation work continuing

- Efficiency management, fuel envelope, NOx

Timeline for First Unit Transition



Low Cost Options for the Future

4th unit conversion

- Engineering design underway
- Design focus – fuel optionality across converted units
- Fuel strategy based on sources outside North America

Carbon capture and storage (CCS) – Demonstration

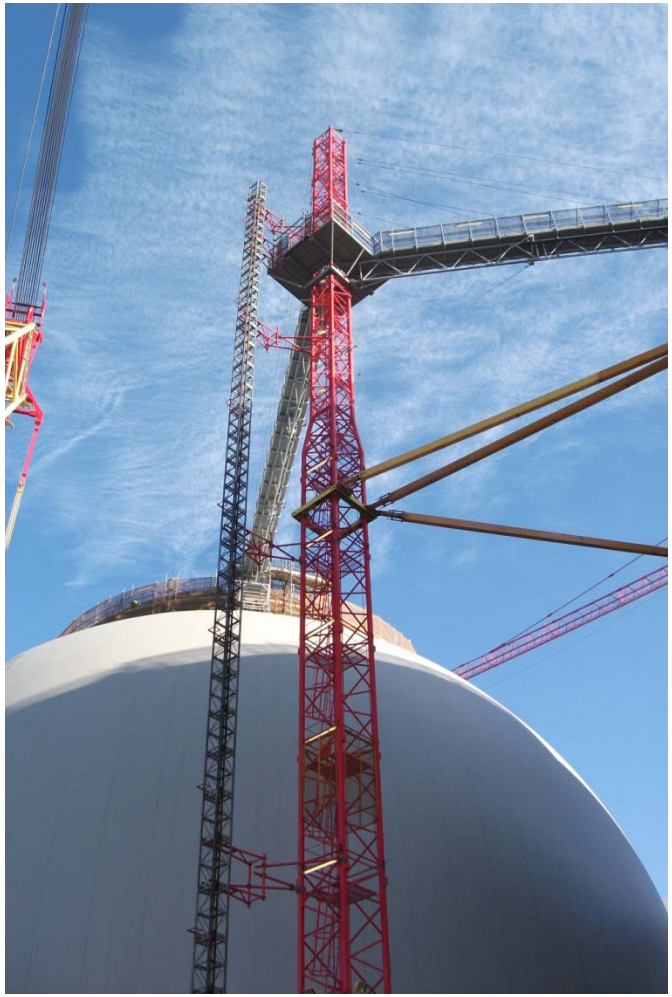
- New 426MW oxy-fired plant
- One of two lead projects in UK competition
- Sole CCS project in EU NER 300 competition
- Negotiations underway for start of 2-year feasibility study

Further pellet plant and port facilities

- Site options under development
- USA : Gulf expansion and South East
- Latin America: exploring longer term options

Capacity options

- UK Capacity Market could create value opportunity
- Evaluating options to benefit from core Drax competencies



Conclusion

Transformation Milestones

Biomass Sourcing	Sustainable Fuel Secured	2Mt for 2013/14 ROC year(1)	✓
		4Mt for 2014/15 ROC year	On Track
		6Mt by 2016/17 ROC year	On Track
US Investments	Pellet Plants & Port	COD(2) Amite pellet plant and Baton Rouge port Q1 2015	Schedule Finalised
		COD Morehouse pellet plant Q2 2015	
		Full capacity 6 months after COD	
UK Infrastructure	Port Throughput	2Mtpa for 2013/14 ROC year	✓
		4Mtpa for 2014/15 ROC year	On Track
		6Mtpa for 2015/16 ROC year	On Track
	Rail Wagons	50 wagons operational Q1 2014	On Track
		100 wagons operational Q3 2014	
		150 wagons operational Q1 2015	
Drax Site	New Biomass Systems	Fuel distribution fully operational Nov 2013	On Track
		Delivery and storage for 1 unit fully operational Dec 2013	
		Storage for 2 units fully operational Mar 2014	
		Storage for 3 units fully operational Q3 2014	
	IED	Define IED solution by end 2013	

H1 2013 profits in line with expectations – Increasing cost of carbon

Biomass transformation – On track with converted unit performing to plan

Capital Markets Day – Drax: 17 October 2013

(1) ROC year = 1 April to 31 March
(2) COD = commercial operations date

Questions

Appendices

1. Definitions
2. Financial Calendar
3. IAS39 Treatment
4. Power Market
5. Gas Market
6. Coal Market
7. Carbon Market
8. Carbon Tax
9. Forward Spread Movements
10. Commodity Price Movements
11. Ofgem Capacity Assessment
12. LCPD
13. Biomass Fuels
14. ROC Banding Review Conclusions
15. ROC Mechanics
16. Drax Site Development Schematic

Appendix 1: Definitions

API2/4/6		API2 is the main reference price (including cost, freight and insurance) for steam coal to be delivered to Amsterdam, Rotterdam and Antwerp. API4 is the reference price for steam coal to be delivered free on board ("FOB") to Richards Bay, South Africa. API6 is the reference price for steam coal to be delivered FOB to Newcastle, Australia.
	AVERAGE ACHIEVED PRICE	Power revenues divided by volume of net sales (includes imbalance charges).
BM	**BALANCING MECHANISM**	The mechanism through which the System Operator can call upon additional generation/consumption or reduce generation/consumption, through market participants' bids and offers, in order to balance the system minute by minute.
CESP	**COMMUNITY ENERGY SAVING PROGRAMME**	CESP has been created as part of the Government's Home Energy Saving Programme. It requires gas and electricity suppliers and electricity generators to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain. CESP came into force on 1 September 2009. The CESP obligation period ran from 1 October 2009 to 31 December 2012.
DECC	**DEPARTMENT FOR ENERGY AND CLIMATE CHANGE**	
	DIRECT INJECTION	A process whereby biomass is fed directly (i.e. avoiding the pulverising mills) to the burners situated in the boiler walls.
EBITDA		Profit before interest, tax, depreciation, amortisation and unrealised gains/(losses) on derivative contracts.
ELV	**EMISSION LIMIT VALUES**	One of the mechanisms available to implement the LCPD. This sets annual limits on the emissions of NO_X, SO_2 and particulate which will be incorporated into the forthcoming PPC permit.
EUA	**EU ALLOWANCE**	European Union Allowances, the tradable unit under the EU ETS. Equals 1 tonne of CO_2.
EU ETS	**EU EMISSIONS TRADING SCHEME**	Trading Scheme within the European Union. The first compliance phase ran from 2005-07, the second compliance phase continued from 2008-12 and the third phase is proposed to run from 2013-2020.
IUK	**INTERCONNECTOR UK**	Sub sea gas pipeline and terminal facilities providing a bi-directional link between the UK and continental European energy markets.
LCPD	**LARGE COMBUSTION PLANT DIRECTIVE**	European Union Large Combustion Plant Directive sets emission standards for NO_X, SO_2 and particulate from all Large Combustion Plant (>50MW).
LEC	**LEVY EXEMPTION CERTIFICATE**	Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.

Appendix 1: Definitions (cont.)

LNG	LIQUIFIED NATURAL GAS	
LTIR	LOST TIME INJURY RATE	The frequency rate calculated on the following basis (number of accidents/hours worked * 100,000). Accidents are defined as occurrences where the injured party is absent from work for more than 24 hours.
NERP	NATIONAL EMISSIONS REDUCTION PLAN	One of the mechanisms available to implement the LCPD and the one selected by Drax. This sets annual limits on the emissions of NO_X, SO_2 and particulate which will be incorporated into the forthcoming PPC permit.
NOx		Nitrogen oxides, emissions of which are regulated under the LCPD.
OFGEM	OFFICE FOR GAS AND ELECTRICITY MARKETS	
	OPTED-IN / OPTED-OUT	An opted-in plant is a power station that has elected to comply with the LCPD emissions standards. Opted-out plant has not elected to comply and is therefore only permitted to run for 20,000 hours and must in any event close by the end of 2015.
	POND FINES	Coal dust and waste coal from the cleaning and screening process which can be used for coal-fired power generation.
RO	RENEWABLES OBLIGATION	The obligation placed on licensed electricity suppliers to deliver a specified amount of their electricity from eligible renewable sources.
ROC	RENEWABLES OBLIGATION CERTIFICATE	The obligation requires licensed electricity suppliers to ensure that specified and increasing amounts of the electricity they supply are from renewable sources. Eligible generators of electricity using renewable energy sources receive a pre-specified number of ROCs per MWh of renewable power generation dependant on date of commission and technology. These certificates can then be traded.
ROSPA	ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS	
SCR	SELECTIVE CATALYTIC REDUCTION	Converting nitrogen oxides with the aid of a catalyst into diatomic nitrogen and water. A gaseous reductant, typically anhydrous ammonia, is added to a stream of flue gas and absorbed onto a catalyst.
SO_2		Sulphur dioxide, emissions of which are regulated under the LCPD.
TRIR	TOTAL RECORDABLE INJURY RATE	TRIR is calculated on the following basis (lost time injuries + worse than first aid injuries)/ hours worked * 100,000.
UKCS	UK CONTINENTAL SHELF	Gas reserves found off shore in UK waters.
UK NAP	UK NATIONAL ALLOCATION PLAN	Allocation of UK emissions allowances at the national level to individual sites under EU ETS.

Appendix 2: Financial Calendar

Event	2013
Capital Markets Day	17 October
Interim Management Statement	Mid-November
Financial Year End	31 December

Appendix 3: IAS 39 Treatment

Financial Instrument	Location of Gains and Losses in the 2013 Half Year Report
Power	Hedge Reserve
International Coal	Hedge Reserve and Income Statement
Financial Coal	Largely Income Statement
Foreign Exchange	Hedge Reserve and Income Statement
Carbon	Hedge Reserve

Appendix 4: Power Market

UK power market

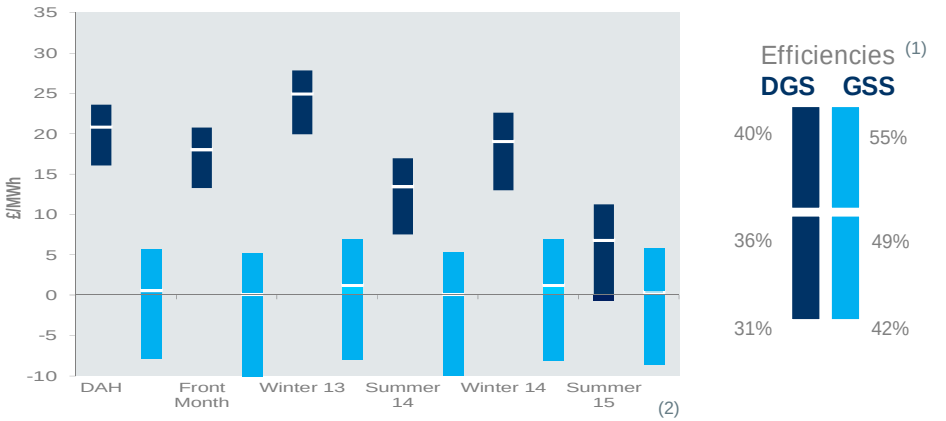
Power prices continue to be driven by gas market

Despatch dynamics

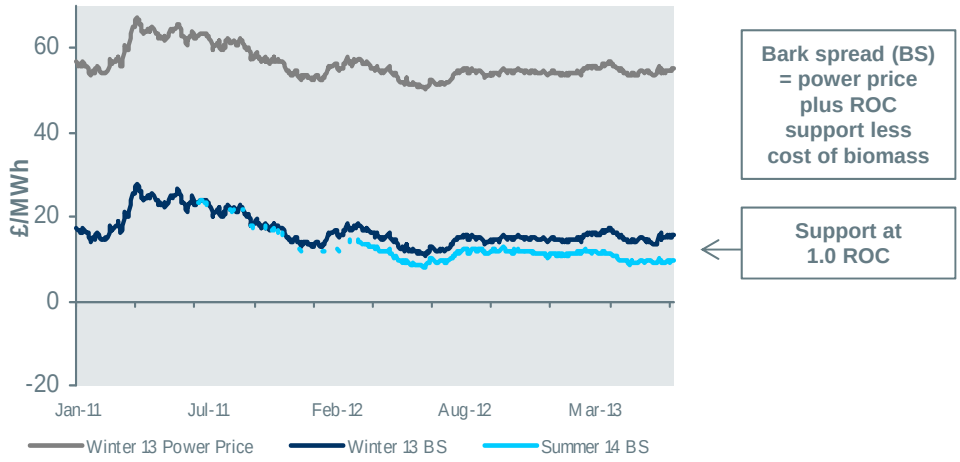
Plant efficiencies significant factor in load profiles

- Different load factors for same fuel plant
- Low GSS resulted in gas plant capacity withdrawn / considered for closure
- Majority of opted out coal plants due for closure this year
- Load factors have increased for opted in coal plant
- Oil-fired plant closing prior to full utilisation of running hours

Range of Market DGS and GSS (1) by Efficiency (Baseload)



Power Price and Indicative Market Bark Spread (Baseload)



(1) DGS = dark green spread, GSS = green spark spread
(2) DGS / GSS includes carbon price support

Sources: Brokered Data, Drax assumptions, and based on market prices on 5 July 2013
Biomass costs based on UK and Global Bioenergy Resource – Final Report, AEA, March 2011

Appendix 5: Gas Market

Fukushima impact on global LNG market continues

- Japanese nuclear constrained
  - 2 of 54 reactors in operation
- Increased Asian LNG prices limits UK spot market attractiveness
  - LNG import uncertainty

Extended winter across Europe – gas storage heavily depleted

- Rough storage (UK) record low in April
  - Expect high summer demand to replenish storage reserves
  - Rough injecting at record highs

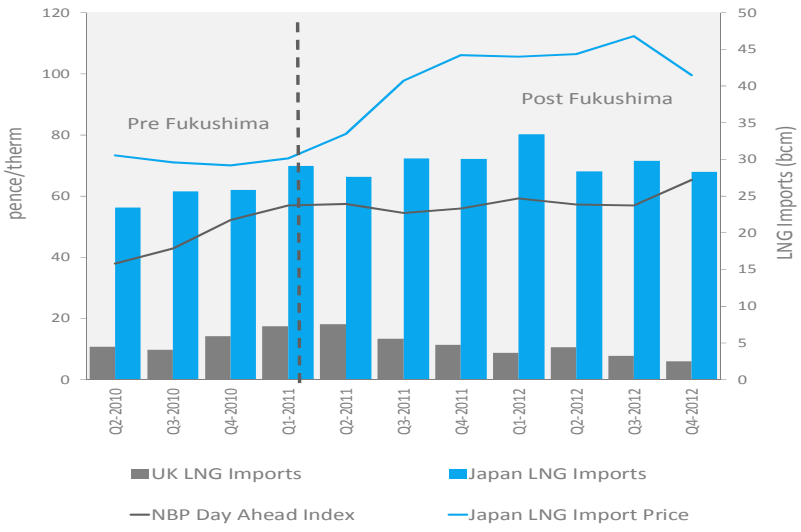
UK gas prices remain strong

- Prices pulled towards oil indexed European prices to attract imports
- Prices remain at a premium to US prices

Increased UK import dependency

- Continued decline of UKCS

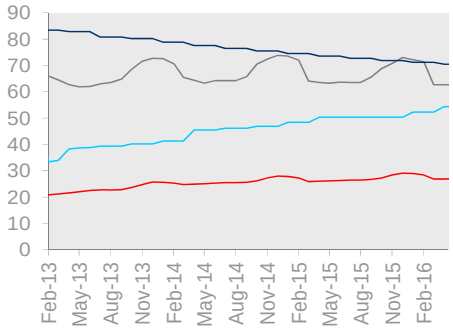
Fukushima Impact on LNG



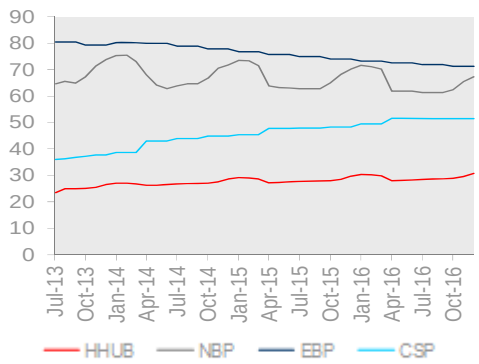
Source: Bloomberg, DECC, Brokered Trades

NBP, Henry Hub and EBP™ Index Forward Curves

January 2013



July 2013



Source: European Benchmark Price (EBP™ Index): Eclipse Energy Group, NBP and Henry Hub: Bloomberg and Brokered Trades. EBP is a trademark owned by Eclipse Energy Group

Appendix 6: Coal Market

Continued supply driven weakness in global prompt market

- Prompt API2 prices c.$75/t
- UK domestic coal producers under pressure

Chinese seaborne imports up 8% in H1 2013

- Imports up 41% in 2012
- Stock levels remain high
- Strong hydro production reduced thermal requirement

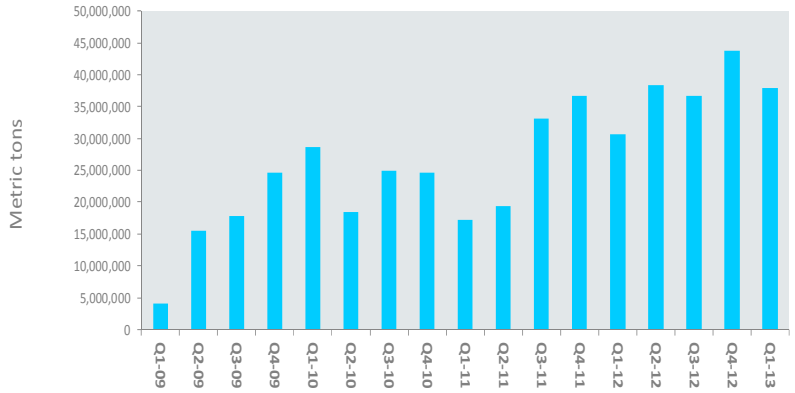
US exports to EU up 67% in 2012

- Low demand – producers look to export market
- Q1 2013 exports +21%
- Low demand / low prices – production cuts

Steam coal exports up in 2012

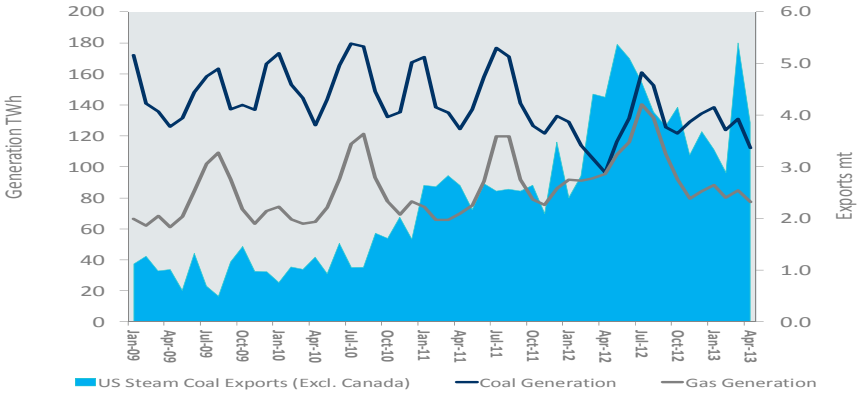
- Australia +16%
- South Africa +9%
- Indonesia +7%
- Colombia +4%

Chinese Seaborne Coal Imports



Source:IHS CERA's Global Steam Coal Advisory Service

USA: Coal Exports and Gas / Coal Generation



Source: EIA and IHS CERA's Global Steam Coal Advisory Service

Appendix 7: Carbon Market

Phase III EUAs – new lows in 2013

Driven by Phase II over-supply and weak European economies

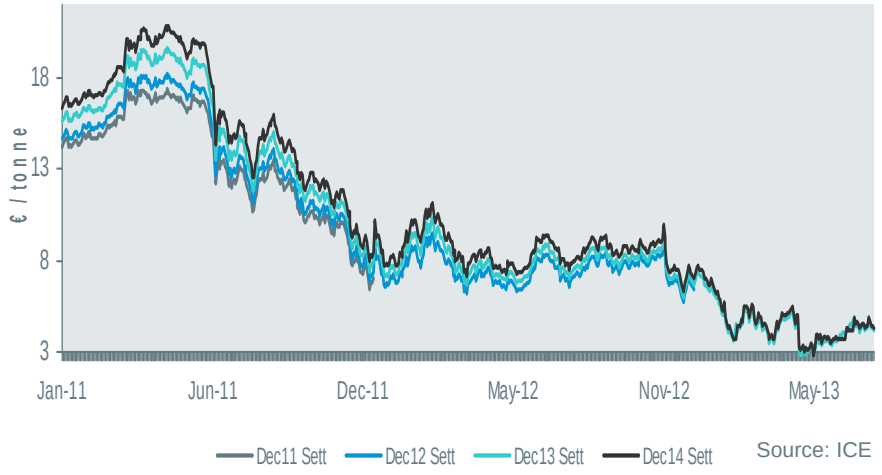
- Phase II surplus bankable into Phase III (2013 to 2020)

Backloading debate on-going

- Plans to temporarily remove allowances passed by the European Parliament
- Requires European Council approval

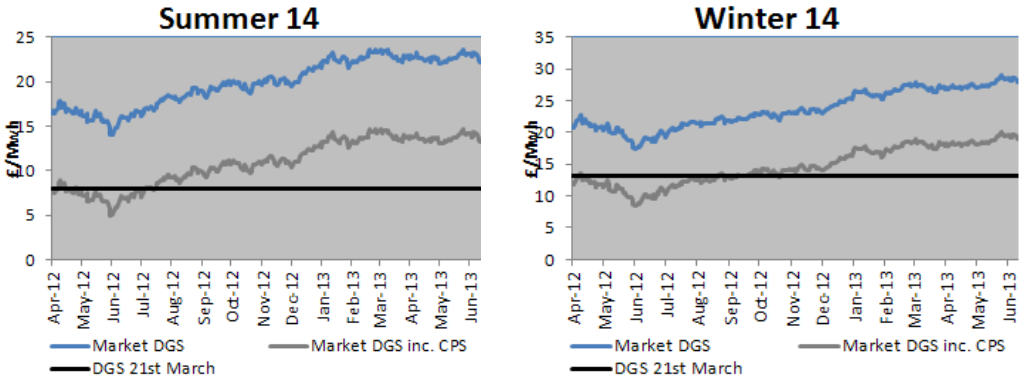
Introduction of UK carbon tax

EUA movements since January 2010



Source: ICE

Carbon Tax Impact on DGS



Sources: Drax Assumptions, Brokered Trades

Appendix 8: Carbon Tax

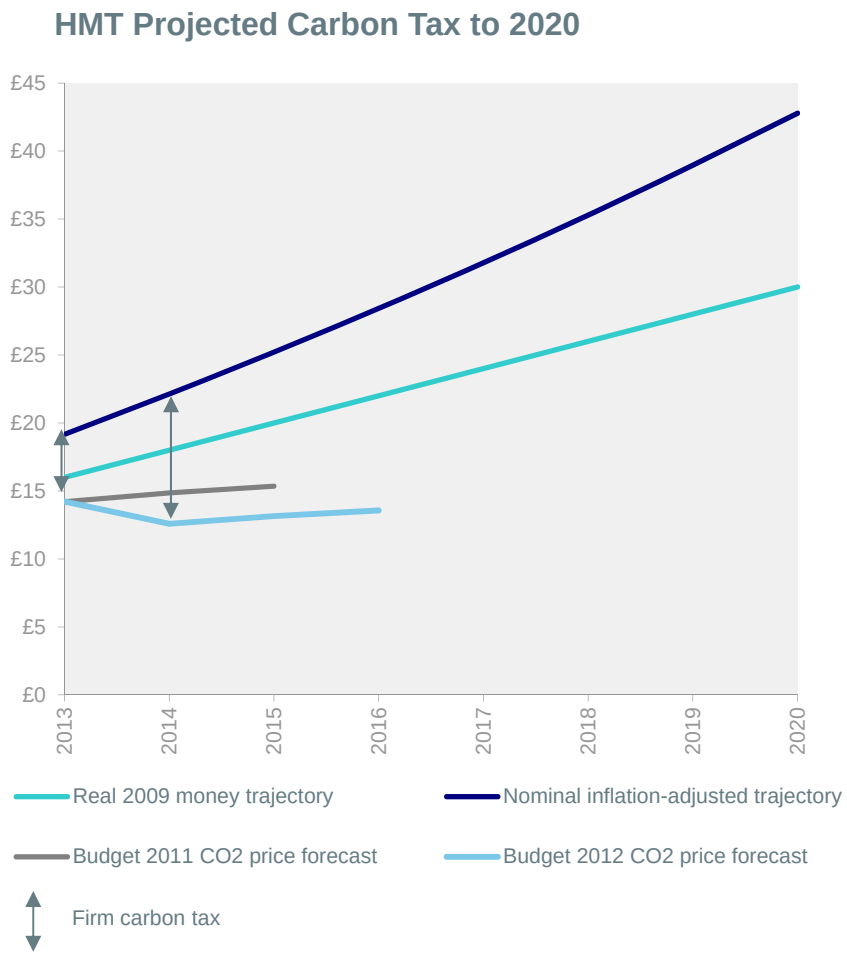
Introduced in Budget 2011 – effective April 2013

Climate Change Levy (CCL) amended to indirectly supplement EU ETS carbon price

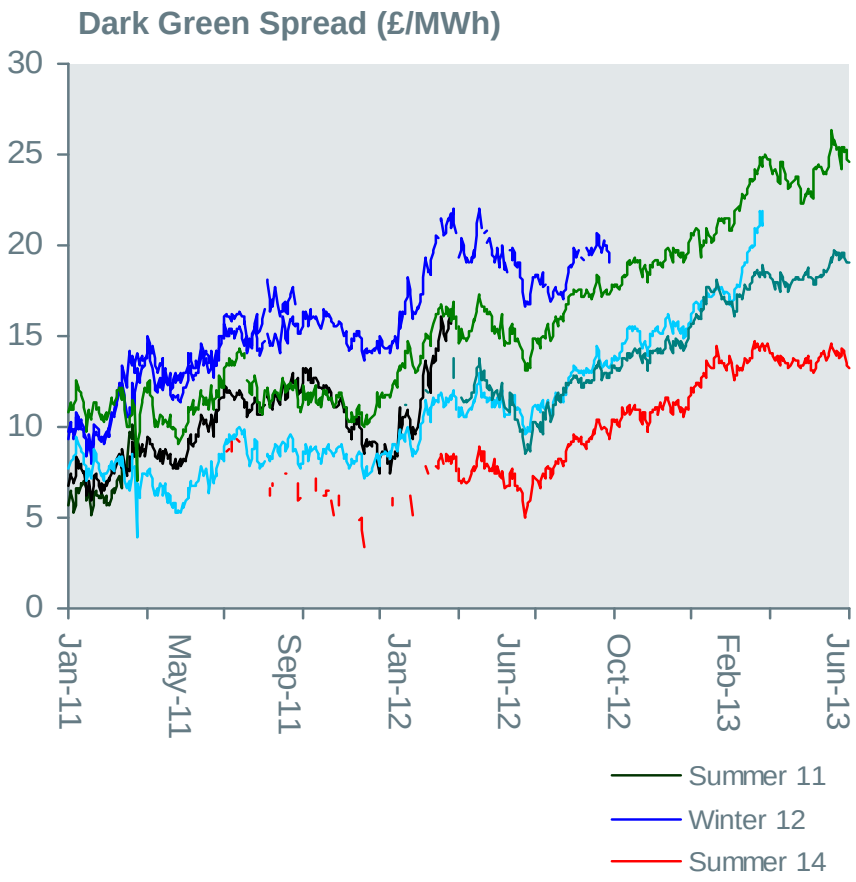
- Based on fuel (coal) consumption

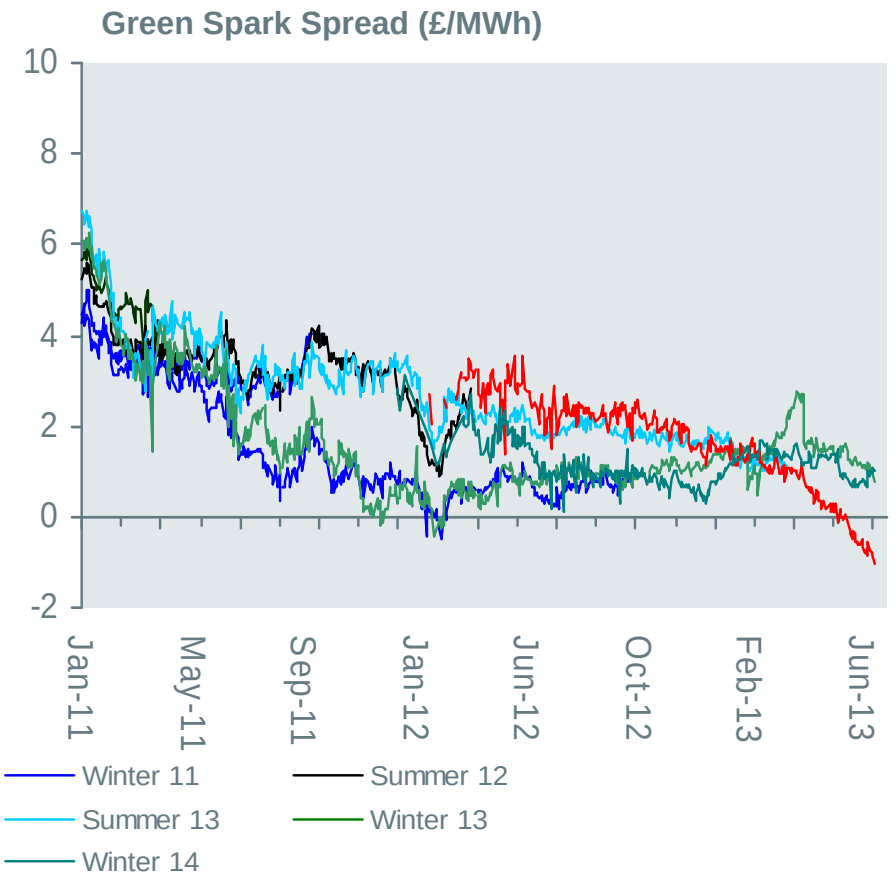
Tax per tonne CO_2 set annually – 2 years in advance

- Based on difference between Government's (HMT) target carbon price trajectory and traded price
- For 2013 this is £19 - £14 = £5/tonne CO_2; equivalent to £12/tonne coal
- For 2014 this is c. £10/tonne CO_2; equivalent to £23/tonne coal
- For 2015 this is £18/tonne CO_2; equivalent to £43/tonne coal



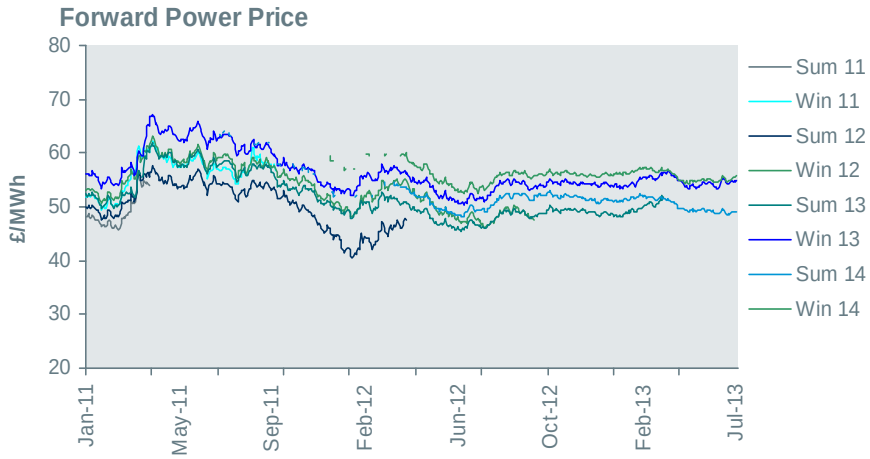
Appendix 9: Forward Spread Movements



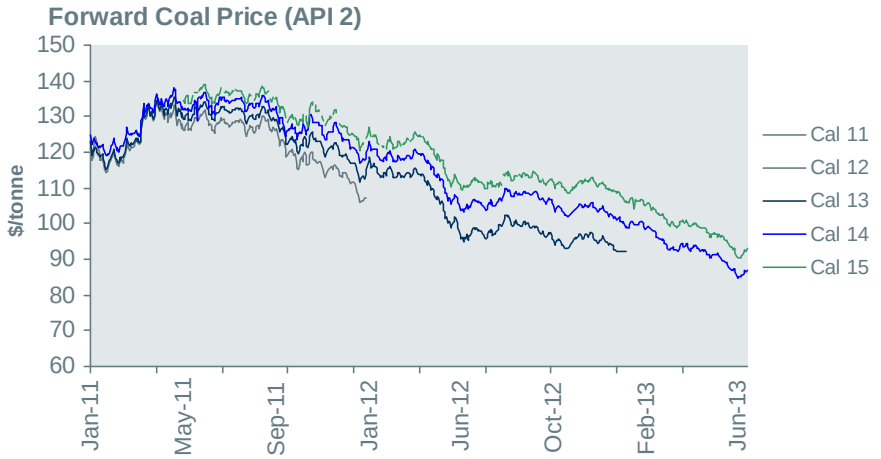


Source: Drax. Assumed typical efficiencies: Dark Spread - 36%, Spark Spread - 49%

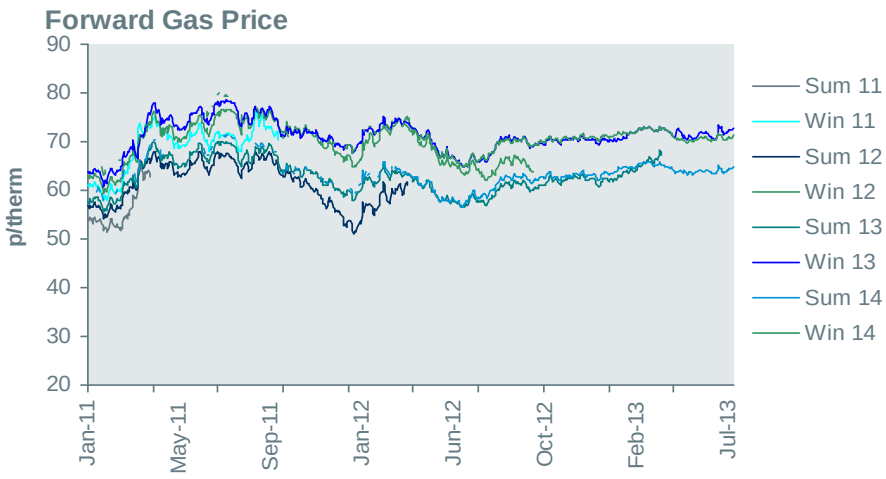
Appendix 10: Commodity Price Movements



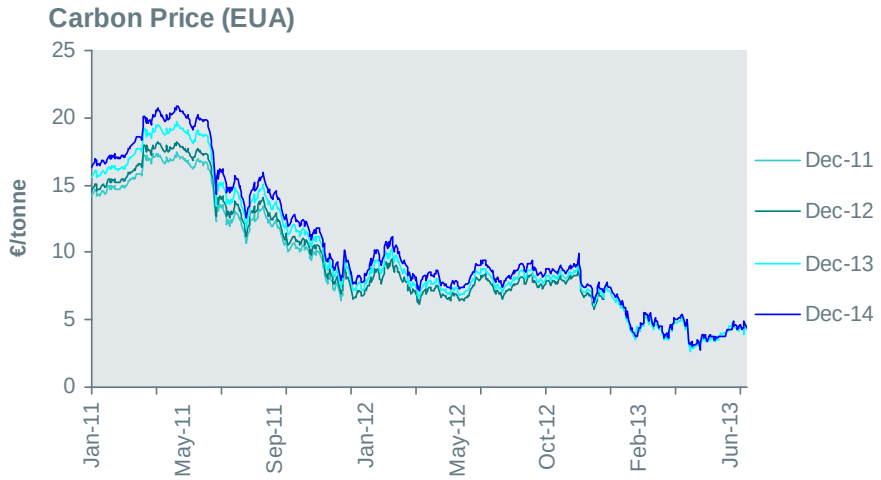
Sources: Brokered Trades, Prebon, Spectron, ICAP, GFI



Source: Brokered Trades, McCloskey



Source: Brokered Trades, Spectron



Source: ICE ECX

Appendix 11: Ofgem Capacity Assessment

Significant uncertainty

- Key drivers:
  - Gas plant closures
  - Gas plant new build
  - Interconnector flows

Ofgem capacity assessment conclusions:

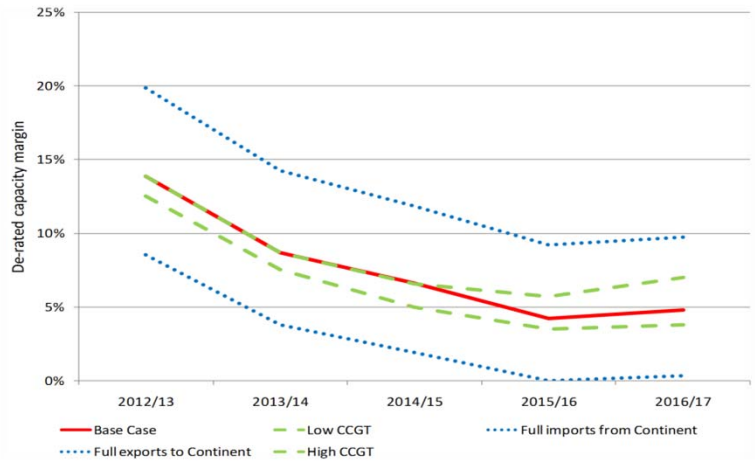
- Base case de-rated margin decline to 4% by 2016
- Wide range of possible outcomes

Key Ofgem generation supply assumptions

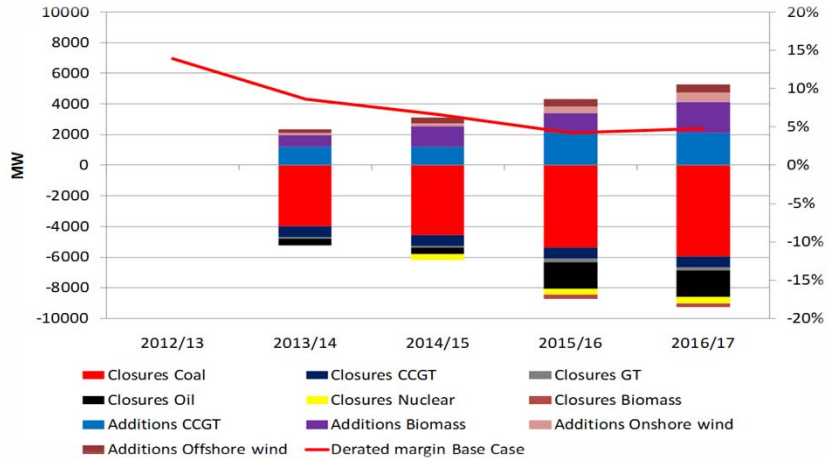
Installed capacity changes by 2016/17 (from 2012/13 base year):

- LCPD: 7GW coal and oil closes
- 1GW gas closes
- 2GW new gas (or return to service)
- 2GW new biomass
- 5GW new wind

Ofgem De-rated Capacity Margin Projections (1)



Ofgem De-rated Capacity Margin and Changes (1)



(1) Source: Ofgem Electricity Capacity Assessment (October 2012)
De-rated margin = excess of available capacity to peak demand expressed as a %
De-rating factors estimated by Ofgem based on historical availability

Appendix 12: LCPD

Installation	Operator	Fuel	Installed Capacity (MWe)	Capacity Opted In (MW)	Capacity Opted In NERP (MW)	Capacity Opted In ELV (MW)	Capacity Opted Out (MW)	Opted Out Hours Remaining (Elexon – May 2013)
Drax	Drax Power	Coal	3870	3870	3870	0	0	
Eggborough	EPL	Coal	1960	1960	1960	0	0	
Cottam	EDF Energy	Coal	2008	2008	0	2008	0	
West Burton	EDF Energy	Coal	1972	1972	0	1972	0	
Kingsnorth	E.ON UK	Coal	1940	0	0	0	1940	Closed
Ratcliffe	E.ON UK	Coal	2000	2000	0	2000	0	
Ironbridge	E.ON UK	Coal	970	0	0	0	970	54%
Rugeley	International Power	Coal	996	996	0	996	0	
Ferrybridge	Scottish & Southern Energy	Coal	1960	980	0	980	980	U1&2 12%
Fiddlers Ferry	Scottish & Southern Energy	Coal	1961	1961	0	1961	0	
Longannet	Scottish Power	Coal	2304	2304	2304	0	0	
Cockenzie	Scottish Power	Coal	1152	0	0	0	1152	Closed
Uskmouth	Scottish & Southern Energy	Coal	393	393	0	393	0	
Didcot A	RWE npower	Coal	1940	0	0	0	1940	Closed
Tilbury*	RWE npower	Coal	1020	0	0	0	1020	BOIL 7&8 6% BOIL 9&10 5%
Aberthaw	RWE npower	Coal	1455	1455	0	1455	0	
Grain	E.ON UK	Oil	c.1300	0	0	0	c.1300	Closed
Littlebrook	RWE npower	Oil	c.1100	0	0	0	c.1100	87%
Fawley	RWE npower	Oil	c.1000	0	0	0	c.1000	Closed
Total			**31301**	**19899**	**8134**	**11765**	**11402**	

Source: Elexon, Oxera, Drax data as at May 2013

*** RWE previously proposed conversion of Tilbury to 100% biomass, but plant may now close**

Appendix 13: Biomass Fuels

Forestry Residuals

Forestry thinnings

Harvesting residues

Chips/ Sawdust

Bark

Wood pellets

Agricultural By-products

Wheat/Oat straw

Sunflower husks

Sugarcane bagasse

Rice straw

Olive pulp

Nut shell

Energy Crops

Miscanthus & switchgrass

Bamboo

Jatropha

Short Rotation Coppice (e.g. Willow)

Short Rotation Forestry (e.g. Eucalyptus)

Appendix 14: ROC Banding Conclusions

Technologies	Level of ROCs / MWh	
	Previous Support	DECC Decisions – July 2012
Offshore wind	2.0	2.0 – 1.8
Onshore wind	1.0	0.9
Standard co-firing (< 50%)	0.5	0.3 – 0.5
Enhanced co-firing (51% - 84%)	0.5	0.6
Enhanced co-firing (85% - 99%)	0.5	0.7 (2013 – 2014) 0.9 (2014+)
Conversion (1)	0.5	1.0
Dedicated biomass	1.5	1.5 1.4 (2016+)

(1) Excluding allowance of up to 10% additives

Appendix 15: ROC Mechanics

Renewables Obligation (RO) – suppliers must source increasing volume of renewable power

Obligation can be met in two ways:

- Surrender ROCs or pay a buy-out

All buy-out funds recycled to suppliers that surrender ROCs

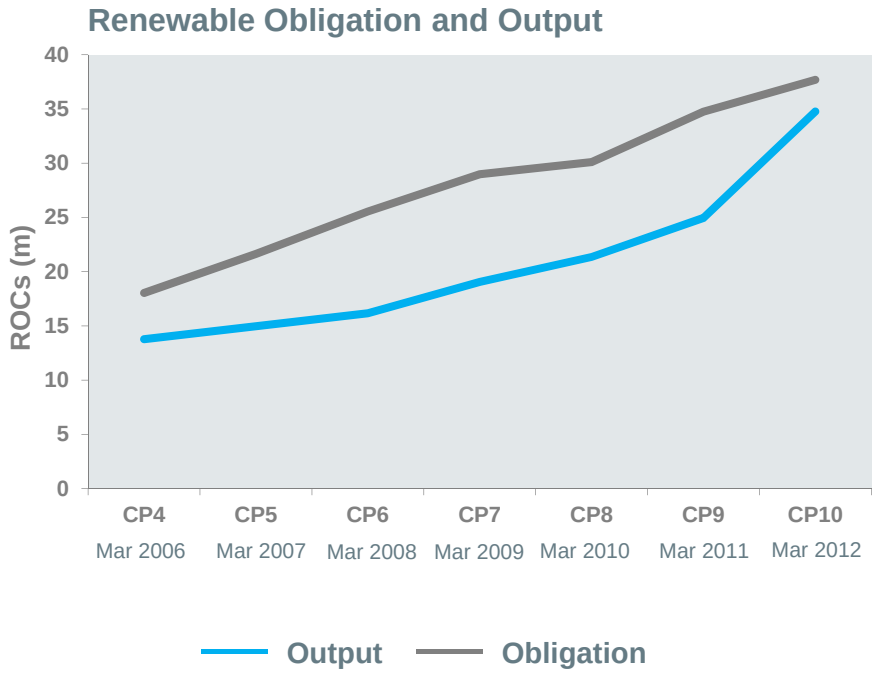
- Buy-out is mandated price with RPI indexation; currently c. £41/MWh

Mechanism in place to ensure:

- Obligation increases annually; and
- Obligation > expected ROC production

Cash flows

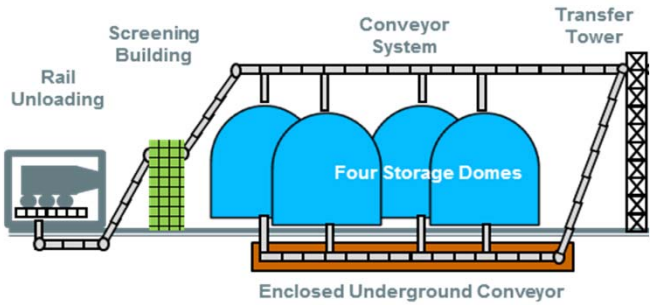
- Obligation is annual (April – March)
- ROCs surrendered or buy-out paid by 1 September following March year end
- Recycled funds paid out in October
- Drax exploring options to accelerate ROC cash flows



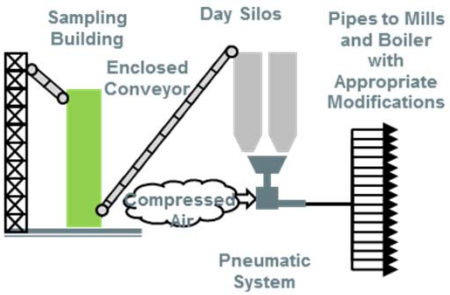
Source: Renewables and CHP Registry,
Ofgem Renewables Obligation Annual Reports & Information Notes

Appendix 16: Drax Site Schematic

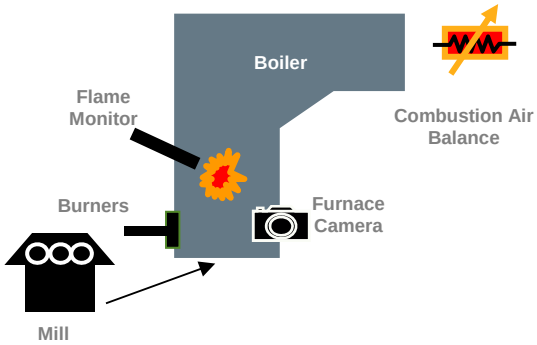
Rail Unloading and Storage



Fuel Distribution



Combustion



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Half Year Results

6 Months Ended 30 June 2013

30 July 2013