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THE ECONOMIC IMPACT OF DRAX GROUP IN THE UK

DECEMBER 2020

drax

Oxford Economics

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TABLE OF CONTENTS

Executive summary	1
1. Introduction.....	2
1.1 Drax Group.....	2
2. Results	4
2.1 Direct impact	4
2.2 Indirect impact.....	5
2.3 Induced impact.....	6
2.4 Total impact.....	7

EXECUTIVE SUMMARY

Drax Group plays a key role in the British energy market, generating and supplying low-carbon energy, and providing energy solutions to industrial and business consumers across the country.

Drax Group generated and supplied 5% of the UK's electricity in 2019.

This includes the hydro and gas generation assets the Group recently acquired from ScottishPower—now operating as Drax Generation Enterprise Limited (DGEL). The acquisition of the new sites across Scotland and England made Drax Group the fourth largest electricity generator in the UK.

The Group is at the forefront of efforts to reduce the UK's carbon footprint and accounts for 12% of the country's renewable energy production. Drax Power Station is the largest single source of renewable electricity in the UK, producing 11% of the nation's renewable electricity. The Station's major decarbonisation project that has seen its increasing use of biomass generation has helped the Group reduce its carbon emissions by 85% between 2012 and 2019.

In addition to energy generation, the Group—through Haven Power and Opus Energy—supplies energy to 419,000 meter points at businesses throughout Britain. As well as supplying energy, Haven Power and Opus Energy also promote energy efficiency and sustainability among other businesses, offering 100% renewable power to supply customers.

Through its operations and investments, Drax Group supports significant economic activity throughout the UK. This report quantifies Drax Group's economic contribution to the UK and its constituent nations and regions in 2019. It encompasses the Group's direct impact, indirect and induced impact of the Group's activities.

Drax Group has a sizeable economic footprint in the UK. With sites across the UK's nations and regions, Drax Group spent £1.5 billion with external UK-based suppliers in 2019.

In total, Drax Group's operations contributed over £2.2 billion to UK GDP in 2019. This figure includes the value created by the Group's production and supply of wholesale energy, the activity supported along the Group's supply chain by its procurement spending, and the activity sustained by the wage-induced spending of its staff (and suppliers' staff) in the consumer economy. One-quarter of this GDP impact, some £548 million, was generated in the Yorkshire and the Humber region, home of Drax Power Station.

In addition to these contributions to economic output, Drax Group supported 19,200 jobs across the UK in 2019. The jobs sustained by the Group were spread throughout the UK's nations and regions, reflecting the spread of the Group's operations. By region the most jobs were supported in the Yorkshire and the Humber region, at 4,200.

Drax Group supported £480 million in tax revenues to the UK Exchequer in 2019. This contribution would be sufficient to pay the annual salaries of 17,300 nurses across the UK.

12%

Of UK's renewable electricity generated by Drax Group

And 5% of its total electricity

419,000

Meter points powered by Haven Power and Opus Energy

£2.2 billion

Drax Group's total GDP contribution in 2019

It also supported a total of 19,200 jobs

1. INTRODUCTION

This report—commissioned by Drax Group—sets out the results of Oxford Economics’ assessment of Drax Group’s economic contribution to the UK during 2019. It is the latest analysis in a series produced by Oxford Economics for Drax Group, that has quantified the Group’s economic impact in 2015, 2016, and 2017.¹

1.1 DRAX GROUP

Drax Group is a leading British energy company. In recent years it has increased its focus on Biomass energy—the use of sustainably-sourced wood pellets—and has acquired Haven Power and Opus Energy as suppliers to commercial users. And its growth has continued with the recent acquisition of ScottishPower’s pumped storage, hydro and gas-fired generation, now known as Drax Generation Enterprise Limited. The Group’s total power generation and storage capability has risen to 6.5 gigawatts.

Drax Group is playing an important role in the UK’s transition towards a low-carbon economy. In keeping with this goal, the Group has announced plans to become carbon negative by 2030, and has already started making significant strides towards this. In the first half of 2019, it reported a 52% reduction in its carbon emissions compared to the same period in the previous year. Some 94% of the electricity now generated at Drax Power Station is renewable, making it the largest source of the renewable energy in the UK.

Drax has several businesses working across the energy sector in the UK, that are considered in this report. The Group’s three main activities are pellet production; power generation; and energy supply (including energy services to businesses). We present results broken down into the following entities:

- **Drax Power**, Drax’s generation business that owns and operates Drax Power Station in North Yorkshire. In our analysis, the activities of the Group’s head office are included within this entity;
- **Haven Power**, a leading supplier of energy to industrial and commercial users;
- **Opus Energy**, one of the largest suppliers of energy to small and medium-sized enterprises (SMEs) in the UK; and
- **Drax Generation Enterprise Limited (DGEL)**, a generation business that owns and operates a portfolio of hydro, pumped storage and gas-fired generation stations across the UK (new to this year’s report).²

¹ The economic impact of Drax Biomass Inc., Drax’s subsidiary based in the United States, falls outside the remit of these studies.

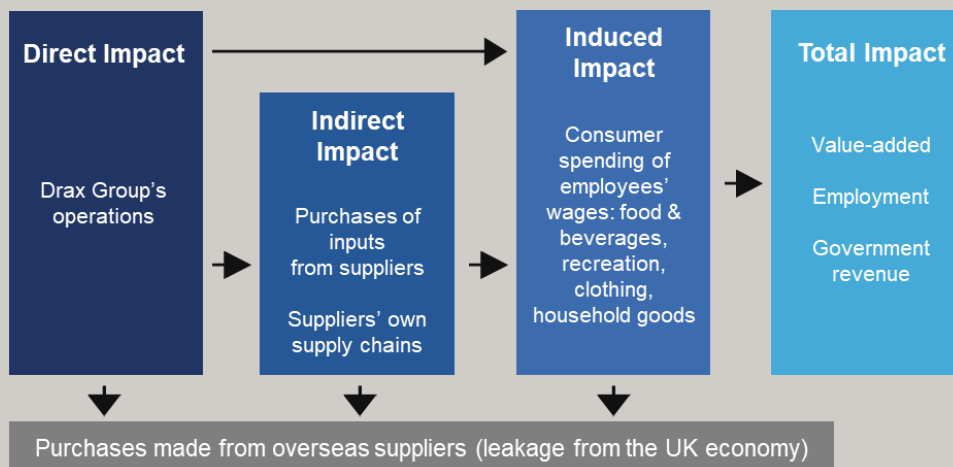
² This includes Cruachan Power Station (pumped storage); Hydro-electric schemes in Lanark and Galloway (Scotland); and Combined Cycle Gas Turbine stations at Damhead Creek, Rye House, Shoreham and Blackburn Mill (all England).

METHODOLOGICAL OUTLINE

Oxford Economics assessed the economic benefits of Drax Group using a standard means of analysis, called an economic impact assessment. Impact analysis traces the economic contribution of a company through three separate channels:

- Its **direct impact** refers to activity conducted directly by the Group in the UK, such as the GDP it generates and its direct employment;
- Its **indirect impact** encapsulates the activity and employment supported in the Group's, or contractors' supply chains as a result of their procurement of goods and services; and,
- Its **induced impact**, comprising the wider economic benefits that arise when employees within the Group and contractors, and their supply chain spend their earnings, for example in local retail and leisure establishments.

Fig. 1: The channels of Drax Group's economic impact



These economic impacts can be measured in one of three ways:

- GDP, or more specifically, the Group's gross value added (GVA) contribution to GDP;
- Employment meaning the number of people employed, measured on a headcount basis; and,
- Tax revenue, the estimated fiscal contribution resulting from corporate activity and employment sustained by the Group.

The calculations undertaken to quantify these impacts draw upon data supplied by Drax Group. The modelling is conducted using an Input-Output (I-O) based model of the UK economy, and regional modules describing the economies of its constituent nations and regions. This model was constructed by Oxford Economics, using macroeconomic, employment and tax data published by the Office for National Statistics (ONS) and HMRC.

2. RESULTS

2.1 DIRECT IMPACT

The activities of Drax Group directly contributed **£549 million to UK GDP** during 2019. This figure encompasses the gross profits it earned through its operations, and the gross wages paid to its workers. This figure represents an increase of 55 percent, relative to 2017.

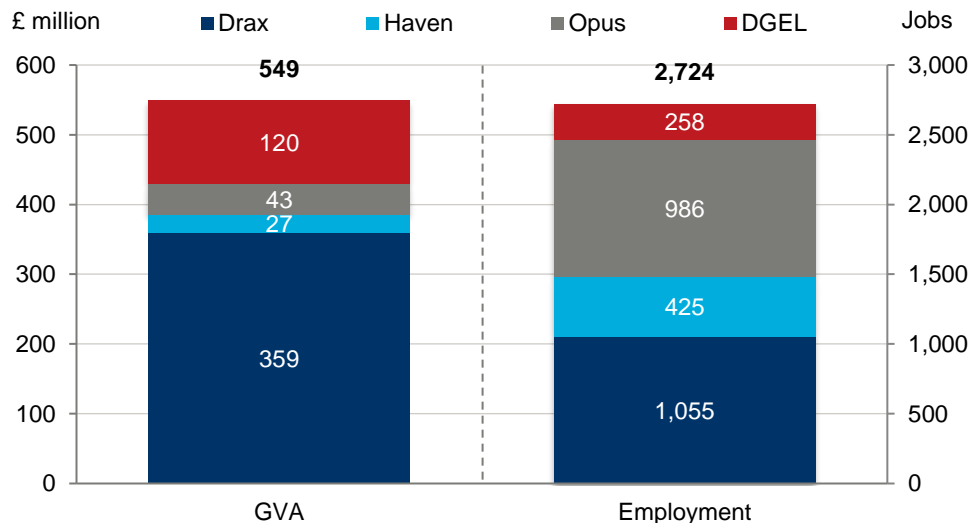
The Group also employed some **2,724 workers** in 2019 across the UK, measured as the average of monthly employment levels during the year. These staff were highly productive. The average gross value added per employee was £201,600 in 2019.³ This means the Group's workers were 3.5 times more productive than the average worker in the UK, and 4.2 times more productive than the average worker in the Yorkshire and the Humber region.

£549m

Drax Group's direct contribution to GDP in 2019

Along with a direct jobs impact of 2,724 workers

Fig. 2: Direct impact of Drax Group, by entity, 2019



Source: Drax Group, Oxford Economics

In addition to these GVA and employment contributions, the Group directly generated around £48 million in tax revenues. This total is made up of Corporation Tax paid by the Group along with the labour taxes generated by its direct workforce: income tax, and employers' and employees' National Insurance Contributions (NICs).

³ ONS (2020) 'Industry by region estimates of labour productivity'

£1.5 bn

Drax Group's spending with external UK suppliers during 2019

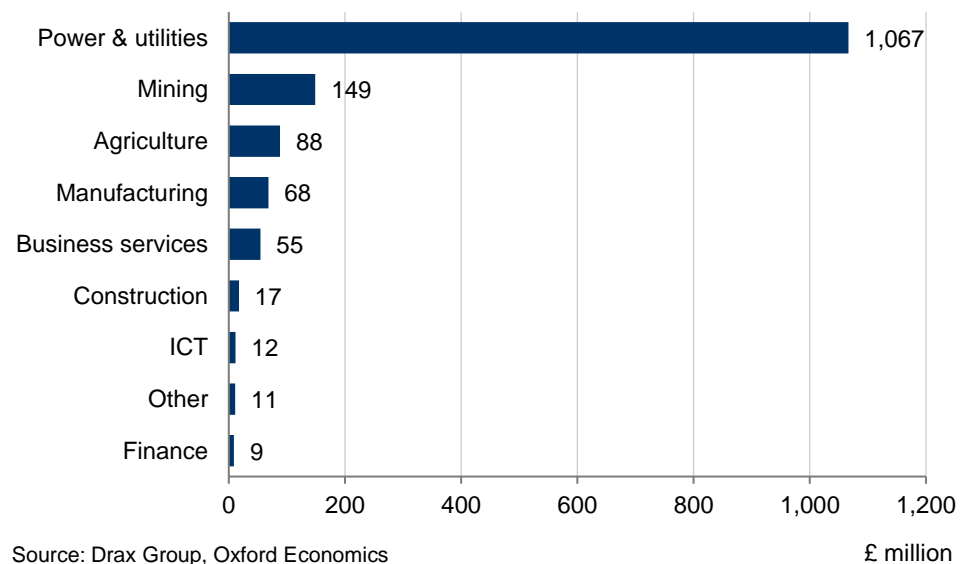
2.2 INDIRECT IMPACT

The Group's indirect impact on the UK economy is driven by its procurement of goods and services from other domestic businesses. In order to avert double-counting, this indirect impact excludes the spending between the various entities of Drax Group. The economic benefits of this spending are already captured within the direct impact, discussed above.

Drax Group spent £1.5 billion with UK-based suppliers in 2019. The majority of this spending, some £1.1 billion, was with suppliers in the power and utilities sector, including the Group's National Grid spending (£2.1 billion with international suppliers).

Fig. 3). The Group spent a further £2.1 billion with international suppliers.

Fig. 3: Drax Group's total procurement expenditure, by sector, 2019



In order to meet the intermediate demands of Drax Group, these businesses make purchases from their own suppliers, and so on down the supply chain. The sum of all these supply chain interactions produces the indirect impact, which ripples out across the regions and nations of the UK.

£1.2 bn

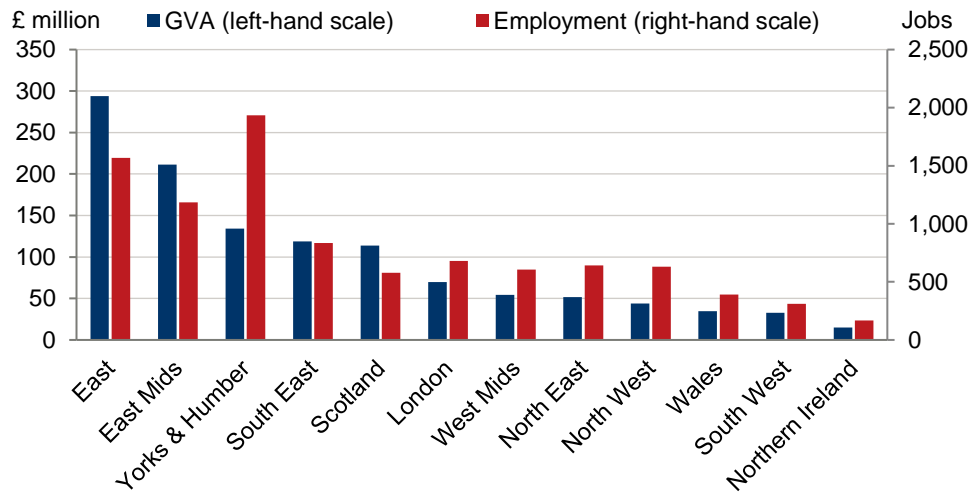
Indirect GDP contribution of Drax Group in 2019

Along with 9,500 jobs supported across the UK

The Group's indirect impact supported a £1.2 billion gross value added contribution to GDP during 2019, and over 9,500 jobs throughout the UK.

The Group's indirect jobs contribution is nearly three times larger than its direct employment, pointing towards the capital-intensive nature of its activities. This illustrates that Drax Group's spending within the UK is with predominately with relatively more labour-intensive industries. The largest indirect contribution to GDP was in the East of England (25% of the total), while 20% of the indirect jobs were supported in the Yorkshire and the Humber region (Fig. 4).

Fig. 4: Regional distribution of Drax Group's indirect impact, 2019



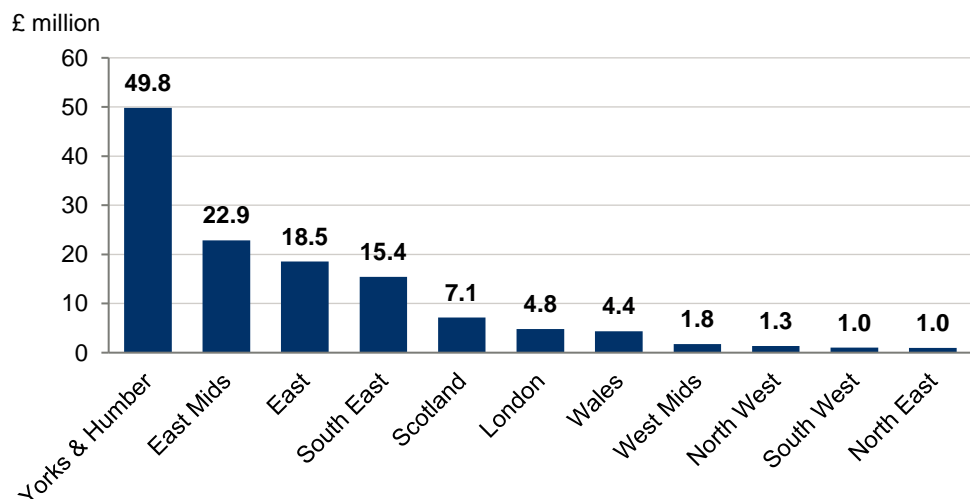
Source: Drax Group, Oxford Economics

The economic activity supported along Drax Group's supply chain created a further £319 million in tax receipts. Labour taxes made up some £177 million of this total, while the induced activity was also associated with £65 million in taxes on products (such as VAT).

2.3 INDUCED IMPACT

Drax Group paid £128 million in gross employee compensation across the UK in 2019. This figure encompasses wages and salaries, pensions contributions, share-based payments and compensation costs (where relevant). This remuneration—the regional distribution of which is shown in Fig. 5—supports further economic activity across the UK as the Group's staff, along with those employed in its domestic supply chain, use their wages to purchase goods from the consumer economy, in local retailers and leisure facilities, for instance.

Fig. 5: Gross salaries paid by Drax Group, by region of employee residence, 2019



Source: Drax Group, Oxford Economics

7,000 jobs

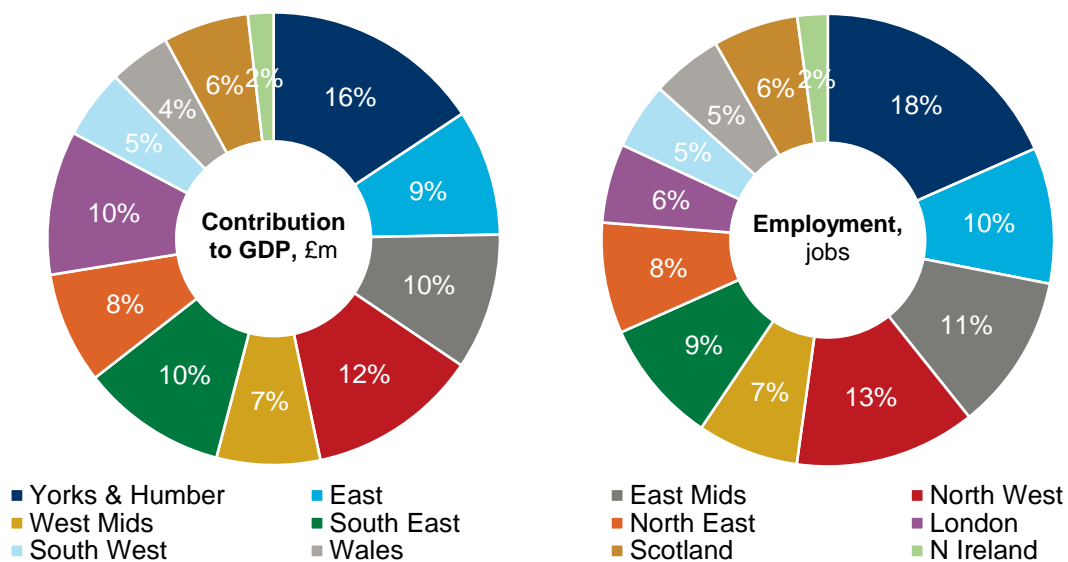
Supported by wage-induced payments attributable to Drax Group in 2019

Alongside a GDP contribution of £477 million

We estimate Drax Group's induced GVA impact reached £477 million in 2019. The wage-induced spending that can be attributable to the Group also supported 7,000 jobs across the UK. This induced impact is spread more broadly across the UK's nations and regions (Fig. 6). The largest impact was, however, in the Yorkshire and the Humber region where 16% of the induced GDP impact and 18% of the induced jobs were supported.

This induced activity was also associated with tax revenues of £114 million. This sum encompasses all the taxes on profits, wages and procurement discussed previously; while also including the VAT accrued as a result of Drax Group's induced consumption impact.

Fig. 6: Regional distribution of Drax Group's induced impact, 2019



Source: Drax Group, Oxford Economics

2.4 TOTAL IMPACT

By adding the three channels discussed above, we arrive at our estimates for the total impact of Drax Group's activities during 2019. This can be considered the Group's total 'footprint' on the UK economy in that year.

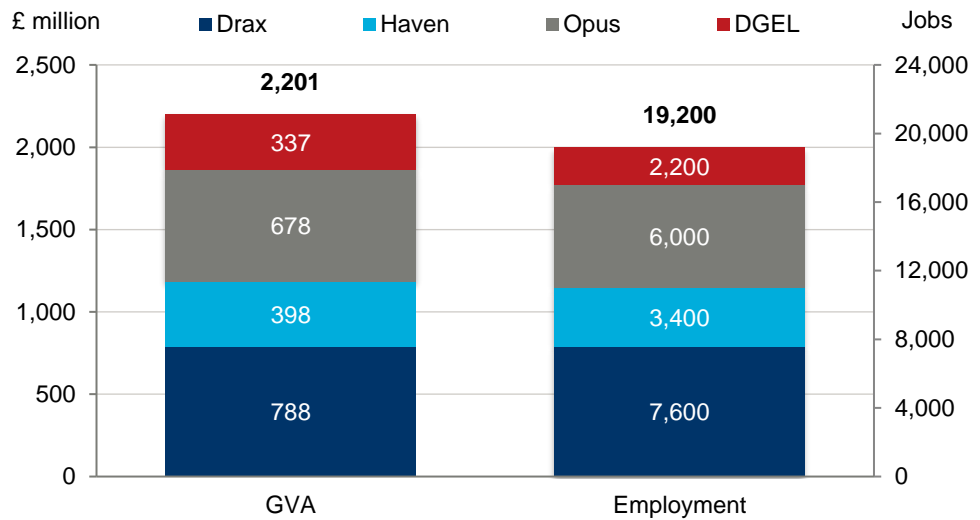
We estimate Drax Group's activities generated £2.2 billion in GVA during 2019, and supported a total of 19,200 jobs. The contribution of each of Drax Group's major entities is shown in Fig. 7, while the regional distribution is shown in Fig. 8. In total, this is a sizeable contribution to the UK's economy, with the Group's total contribution to GDP equivalent to 13% of Sheffield's economy.

£2.2 bn

Total GDP contribution of Drax Group in 2019

Alongside 19,200 jobs supported in total

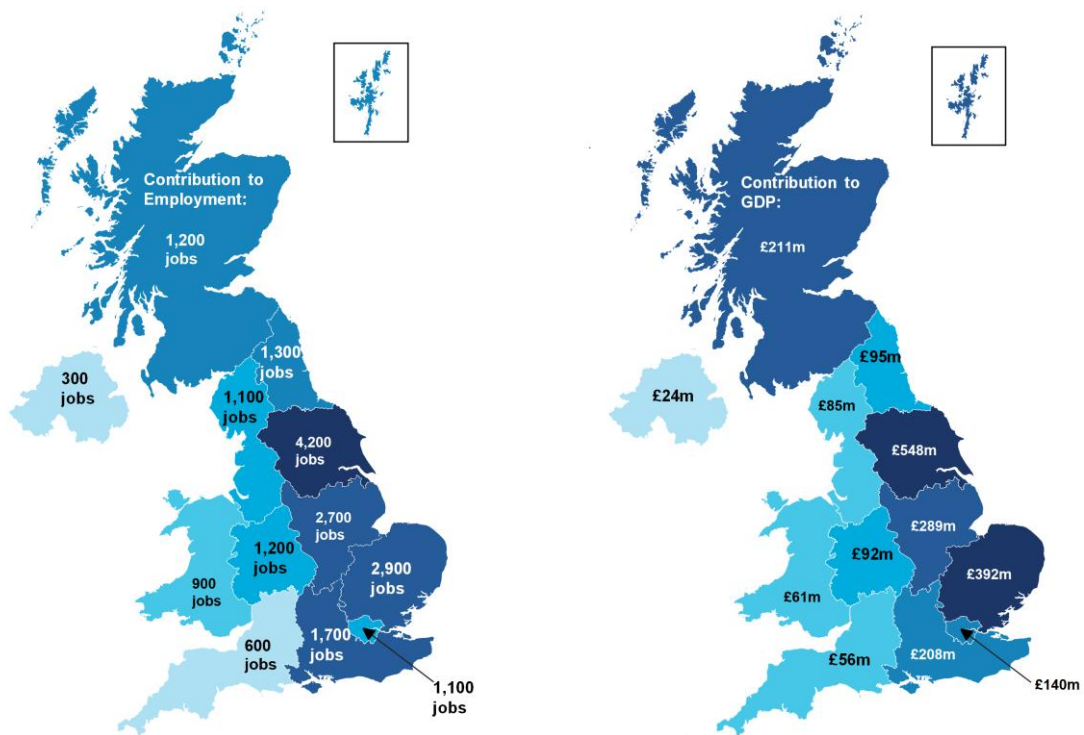
Fig. 7: Total impact of Drax Group, by entity, 2019



Source: Drax Group, ONS, Oxford Economics

The Group also supported an estimated £480 million in tax revenues. This is a significant contribution to the UK Exchequer that would be sufficient to pay the annual salaries of 17,300 nurses or 11,900 police officers, for example.⁴

Fig. 8: Drax Group's total impact across the UK, 2019



⁴ ONS (2020) 'Employee earnings in the UK (Annual Survey for Hours and Earnings)'



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