



State aid: Commission opens in-depth investigation into UK public support for Drax power plant

Brussels, 5 January 2016

The European Commission has opened an in-depth investigation to assess whether the United Kingdom's plans to support the conversion of part of the Drax coal power plant to operate on biomass are in line with EU state aid rules.

The Commission fully supports Member State efforts to increase the use of renewable energy and pursue EU energy and climate objectives. At the same time, EU state aid rules make sure that the cost of such support for consumers is limited and does not give certain operators an unfair advantage over competitors. Therefore, the Commission will now investigate further to make sure that the public funds used to support the Drax project are limited to what is necessary and do not result in overcompensation. It will also assess whether the positive effects of the project in achieving EU energy and environmental objectives outweigh potential competition distortions in the market for biomass. The opening of an in-depth investigation gives the UK and interested third parties an opportunity to submit comments. It does not prejudice the outcome of the investigation.

In April 2015 the UK notified plans to subsidise the conversion of one unit of the coal-fired Drax power plant to operate entirely on biomass. The unit concerned by this measure would have the capacity to generate 645 MW of renewable electricity running exclusively on wood pellets. The measure fixes a certain price ('strike price') for the electricity generated. If the average wholesale price of electricity falls below the strike price, the Drax power plant operator would receive an additional payment on top of the money it earns from selling its electricity into the market. According to UK estimates, the project would operate until 2027 and supply about 3.6 TWh of electricity per year. The plant would require approximately 2.4 million tonnes of wood pellets per year, mainly sourced from the United States and South America.

In its preliminary analysis, the Commission considered that the estimates of the plant's economic performance may be too conservative. A positive change in operating parameters could significantly affect the project's rate of return. At this stage, the Commission therefore has concerns that the actual rate of return could be higher than the parties estimate and could lead to overcompensation.

Moreover, the amount of wood pellets required is considerable, as compared to the volume of the global wood pellets market and demand from the Drax conversion project could significantly distort competition in the biomass market. The Commission is therefore also concerned that on balance the measure's negative effects on competition could outweigh its positive effect on achieving EU 2020 targets for renewable energy.

The Commission will investigate further to see if its concerns are justified. It will give all interested parties the opportunity to express their views on these issues before finalising its assessment.

Background

The Drax power plant is one of several projects selected under the Final Investment Decision Enabling for Renewables (FIDeR), a UK support measure for renewable energy projects. The plans notified by the UK concern state support to convert one of the six units at the Drax plant to operate entirely on biomass.

In January 2015, the Commission approved construction of the [Teesside combined heat and power biomass plant](#). Following an investigation, in December 2015 the Commission approved [aid for converting the Lynemouth power plant](#) to biomass.

The non-confidential version of the decision will be published in the [State aid register](#) on the [competition](#) website under the case number SA.38760 once eventual confidentiality issues have been resolved. The [State Aid Weekly e-News](#) lists new publications of state aid decisions on the internet and in the EU Official Journal.

Press contacts:

[Lucia CAUDET](#) (+32 2 295 61 82)

[Yizhou REN](#) (+32 2 299 48 89)

General public inquiries: [Europe Direct](#) by phone [00 800 67 89 10 11](#) or by [email](#)