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& Net Zero

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Bill Esterson MP
Chair of the Energy Security and Net Zero Committee
House of Commons
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10 February 2025

Dear Bill,

SUPPORT FOR LARGE-SCALE BIOMASS GENERATION

In January 2024, the previous Government launched a consultation on supporting large scale biomass generators when existing support ends in 2027. Since this government came to office, we have carefully considered responses to the consultation and assessed the case for a new support mechanism.

Biomass currently plays an important role in our energy system, but we are conscious of concerns about sustainability and the level of subsidy biomass plants have received in the past.

The department will very shortly publish its response to the consultation. Alongside it, I have made a written statement today to report on our conclusions about the role of Drax Power Station in North Yorkshire in the years 2027 to 2031.

In coming to those views, we have taken advice from the National Energy System Operator (NESO) on security of supply; analysed the effect on consumers of support for biomass versus alternatives; looked at issues around subsidy and sustainability in existing arrangements; and considered longer term issues around decarbonisation.

First on security of supply, we inherited a situation from the previous government where there was no long-term planning for our energy system and its resilience. In this system, large-scale biomass provides around 5% of our annual electricity generation, serving a specific role as a source of firm power.

To meet our needs between 2027 and 2031 we could seek to replace Drax with new gas fired power stations, or other technologies, but in the timescale we have there would be significant risks to relying on this approach. In that context, NESO have advised us that Drax plays an important role in delivering security of supply between 2027 and 2031.

Second, we have undertaken comprehensive analysis of the costs of biomass against alternatives. Our central projections show that, on the right terms and in a much more limited role than today, biomass generation at Drax is the lowest cost

option, including when compared to gas-fired power stations, for billpayers during this period.

Third, we have looked at previous arrangements for subsidy and sustainability. This Government's view is that they simply did not deliver a good enough deal for billpayers and enabled Drax to make unacceptably large profits.

At the same time, they demanded levels of sustainability that are not now in line with the latest scientific evidence or global best practice, including supply chain emissions well above the European standards.

We have concluded that if Drax is to continue to play a role in our power system these arrangements must urgently be improved going forward.

Fourth, we have looked at issues around decarbonisation. Our finding is there is a potential role for bioenergy with carbon capture and storage, or Power BECCS, but realistically this will take time to implement and therefore cannot form the primary basis of our decision.

We have also considered the work of your Committee. I know that you will have heard concerns about biomass and the support that it has received from government in the past. We have listened to these concerns, many of which were also raised in response to our consultation and taken action to ensure that this new support presents a better deal for consumers and stronger guarantees on sustainability.

On the basis of this assessment, and given the circumstances we have inherited, the clear evidence is that Drax is important to delivering a secure, value for money power system in the period 2027 to 2031.

But we have also concluded that we cannot allow Drax to operate in the way it has done before or with the level of subsidy it received in the past.

That is why we have secured Heads of Terms that will form the basis of a very different agreement with Drax for support during the period 2027 to 2031.

A summary of this agreement is included at the end of my written statement to Parliament.

In essence, the agreement will ensure that Drax plays a more limited role in the system, providing low-carbon dispatchable power only when it is really needed.

Drax currently operates as a baseload plant, running around two thirds of the time. This means it provides power even when renewable sources are abundant. This must not continue in the same way.

So under the new arrangement, Drax will be only supported to operate at a maximum load factor of 27% – operating less than half as often as it currently does.

This will be guaranteed by the design of the dispatchable Contract for Difference that we have agreed. When renewable power is abundant, Drax won't generate, and consumers will benefit from cheaper wind and solar instead.

Reflecting this, the contract will deliver much better value for consumers. It will significantly reduce the amount paid in subsidies compared to the existing support mechanism. This new deal halves the subsidies for Drax – equivalent to a saving of nearly £6 per household per year.

Furthermore, our analysis also shows this will save consumers £170m in subsidy in each year of the agreement compared with the alternative of procuring gas in the capacity market.

The deal limits the expected rate of return for Drax to a level below that of monopolies regulated by Ofgem. But while this is our central estimate, we are not prepared to take the risk of prices soaring in response to volatile fossil fuel markets.

So, this agreement includes a built-in windfall mechanism with rates of 30% and 60% that would claw back excess profits made by Drax. This will guarantee a much fairer deal for consumers than the past.

You may also recall that Secretary of State wrote to you recently, following his appearance at the Committee on 15th January. As set out in that letter, ensuring that biomass is sourced sustainably, is of paramount importance to this government. We are accordingly introducing tough new measures on sustainability for this deal.

We will increase the proportion of woody biomass that must come from sustainable sources from 70% to 100%. We will also significantly cut the allowable supply chain emissions to a level in line with the much stricter regulations currently operating in the rest of Europe. And we will exclude material sourced from primary forests and old growth forests from receiving support payments.

There will be substantial penalties on Drax if these criteria are not met.

We will go further to ensure greater confidence that these standards will be met. The government will appoint an independent sustainability adviser to work with my department, the Low Carbon Contracts Company and Ofgem to ensure our monitoring and enforcement measures are robust and keep pace with the science.

Taken together, these measures represent a profound shift from the past on sustainability and on value from money. In this context, this the right deal for security of supply and price in the period 2027 to 2031, given the circumstances we have inherited from the previous government.

Nevertheless, we recognise the strength of concerns in the Committee and across the country about the use of unabated biomass. It is not a long-term solution. We are determined that the next time these decisions are made government is not left in the circumstances we have been. So we will do the work that was not done by the

previous administration on strong and credible low carbon alternatives, so that we have proper options in 4 years' time.

To help that process, we are setting up an independent review to consider our options for greenhouse gas removal, including large-scale power BECCS and DACCS, to assist the UK in meeting our net zero targets and ensuring security of supply, out to 2050. Further details of the review will be shared in due course.

These steps are about fulfilling our duty to ensure security of supply and the best deal for billpayers. We have faced up to the circumstances left by the previous government and delivered a step change in value for money and sustainability.

Thank you for the work of the Committee. This government will do whatever it takes to deliver energy security and protect billpayers now and into the future. We look forward to continuing to work closely with you and your members throughout this process.

Best wishes,

A handwritten signature in black ink, reading "Michael Shanks" with a period at the end. The signature is written in a cursive style. Below the signature is a short horizontal line.

MICHAEL SHANKS MP
Minister for Energy