

When Andrew Koss arrived at Drax in 2005, the coal-fired power station close to the town of Selby in North Yorkshire had already been a landmark for motorists on the M62 for 30 years. What passing traffic did not realise is that however solid and immovable this facility appeared – with 12 giant cooling towers spewing water vapour onto the skyline – it faced an uncertain future.

Koss had been appointed company treasurer to lead a refinancing as part of plans for Drax's initial public offering in December that year. Despite its strategic importance in producing 8% of the UK's electricity, the asset had fallen into the hands of its lenders when its largest customer, TXU Europe, went under following the collapse of Enron.

For Koss, the attraction was working on a bumper balance sheet restructuring, but also setting up, a treasury department from scratch. He ignored warnings from former colleagues at doorstep lender Provident Financial that Drax would be sold, not floated – and his new job would not exist anymore. It was a baptism of fire every bit as hot as one of Drax's six furnaces.

Says Koss: "As soon as I arrived, my new boss said: 'You're on your own, I'm going on an investor roadshow. We haven't got a CEO so I'm off to the States. Give me a call if there are any issues, but over to you.' In one respect it was quite scary, in another, it was a huge amount of responsibility and a real opportunity to take it on – but I was completely new to the sector."

The doubters were nearly right: Drax might not have made it onto the stock exchange. Between announcing its intention to float in the summer and selling shares in the December, it received three separate takeover offers that threatened to derail the management's plan. The company did get away – a remarkable reversal of fortune after losses that hit £700m in 2002 – only two weeks before Koss' wife was due to give birth to their first child.

"I can still picture it: we were in the final throes of the negotiation and I was painting our kitchen at 1am. On the other end of the phone were the banks all round a table. It was quite a surreal time." Koss has since moved up through the ranks, becoming chief executive of Drax Power, the company's generating arm, one of its three divisions, in a reorganisation a year ago.

Koss retrained in treasury after moving to Yorkshire from London 16 years ago and passed his AMCT in 2002. "I did find the AMCT very helpful to me when I was getting to know the ropes in treasury," he says. His last job in the City had been

BAPTISM OF FIRE

A refinancing, a change of ownership and a radical move away from coal towards renewables – Andrew Koss's time at Drax Power has been marked by evolution

Words: **James Ashton** / Photography: **Rob Whitrow**

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working on Eastern European derivatives for an investment bank. It just happened that Provident Financial, based in Bradford, was looking for someone in that area as it expanded in the region. Koss found himself learning on the job, but also committed to doing the exams.

“On the banking side, you are dealing with customers; here was an opportunity to work on the corporate side and see how they approach things with the banks. I was gobsmacked at how different it was working in a corporate environment to working in a banking environment. The discipline and the rigour of working in a corporate was much stronger, I found.”

A question of understanding

Drax has a long history. It was built by the Central Electricity Generating Board and transferred to National Power at privatisation in 1990. Then, it was sold on to American energy provider AES for £1.9bn in 1998. When AES quit the UK in 2003, the facility was passed into the hands of its lending banks. Koss joined at the same time as the financial controller and had to put in place a treasury team which hadn't existed before because Drax had never been a freestanding company.

“It really was a question of understanding what was going on and putting the basic controls in place around cash management and payments,” he says. “All of our coal had been bought in the UK and we were only just starting to buying internationally. Realising that we had currency exposures because the coal was denominated in dollars took a little while.”

Because it was a small team, Koss found himself writing policy and procedures one minute and, the next down with the banks, putting in place a £800m bank facility with trading lines. Negotiating that relationship with the banks was made more difficult because some of the lenders bidding to handle its refinancing were also among the exiting shareholders in Drax.

One bank, which was managing the group of lenders in the workout, failed to get the underwriting mandate because “they came in with very high pricing and a very conservative set of terms. They were miles away from where others were. But we had to keep them sweet because they were key to unlocking the deal when we moved from the old structure to the new. It was a very delicate balance.”

By 2008, Drax was long past the survival stage and Koss' role expanded. An opportunity to take on the recently vacated role of head of investor relations came up, and Koss put himself forward when he bumped into the chief executive, Dorothy Thompson, on the stairs.

“I think there was a lot of commonality. In treasury, you are that external face for debt relations with your banks – making the complex things simple, which I think is a real skill. I felt, well how different could equity investors be to debt investors?”

Coincidentally, Thompson, who arrived just after Koss, came from the same treasury background. She worked as assistant group treasurer for Powergen and then ran the European business of InterGen, which was a subsidiary of Shell and Bechtel that also generated power.



“We developed cutting-edge technology, which we realised could make a huge contribution to the UK’s carbon reduction”

It was her vision that took the company heavily into sustainable biomass. The attraction of biomass, or more specifically compressed wood pellets, made from low-grade material that solid-wood industries, such as construction and furniture making can’t use, is that it has a carbon footprint 80% of that of coal and 60% of natural gas. Crucially, unlike any other renewable, it can generate energy exactly when it is needed.

Drax had been experimenting with the technology behind this greener model by burning compressed wood pellets instead of coal since 2003. The company originally planned to move into biomass via a £2bn partnership with German engineer Siemens to produce 900MW of power from three new biomass-fired plants. But, the business realised that an upgrade of the existing power station would be faster and more affordable than building something new. The UK government said it would offer Drax support if it converted three of its six generating units away from coal to biomass technology at its existing site.

More than just a cash cow

The changes would require an entirely new supply chain and an investment of approximately £700m, which would necessitate the support of both investors and lenders as it means a change to Drax’s capital structure.

“Up to 2008, we were a cash cow. The launch of the partnership with Siemens was the first time we were saying, ‘no, we want the cash to invest’.

“We developed some cutting-edge technology, which we were then able to apply to the plant at Drax, which we realised could make a huge contribution to the UK’s carbon reduction targets and means there is a life beyond Drax as just a coal plant,” says Koss.

So far, two of its six generation units have been converted and a third awaits a decision by the European Commission on whether it will allow state aid support. Koss envisages all six

VITAL STATISTICS

12

Drax has 12 cooling towers, each 114m high and large enough to house a building the size of St Paul’s Cathedral

80,000

Around 80,000 tonnes of biomass are stored in each of its four large domes – each 30% bigger than the Royal Albert Hall

259

At 259m, the main chimney is approximately double the height of the London Eye

660

Each of Drax’s six generation units is capable of producing 660MW of electricity, enough to power everything with a city the size of Manchester



being upgraded in time, especially as the government plans to shut all coal-fired stations by 2025 to lower carbon emissions.

Some facilities are mothballing sooner. Engie, the French utility that owns the Rugeley coal plant in Staffordshire, said in February it would close this summer because of power prices being close to 15-year lows and high carbon costs. Koss admits: "The economics of coal are very tough at the moment. I would say, without the moves we have made to convert half the plant, we would be in a very difficult situation."

He adds: "We have a historic hedge in place. Where we had sold forward we are protected, certainly last year and this year, because of the fact we hedged at higher prices than are available today. And today we are not necessarily selling forward very much at these levels. What we are doing, certainly on coal units, is all about flexibility: being there when the market needs us, when the wind is not blowing, providing back up, which tends to be when prices are a little higher."

But the UK chancellor also made electricity sales from biomass tougher last summer when he removed the climate change levy from renewable electricity schemes, a move that Drax forecast would cost it £90m between this year and last.

It was ever thus. Koss characterises the power industry as placing long-term bets – on strategy, financing and investment – and hoping that short-term shocks from the commodity markets or regulators do not derail the company. It explains why the business is run on conservative lines. In 2009, for example, when commodity markets turned, the company raised £100m of equity in an emergency fund raising to pay off all of the group's debt so it could keep its investment grade rating. Koss believes his early skills learned in treasury have stood him in good stead.

"We are not spread over 50 countries, we don't need to do big, consolidated sets of accounts. We are driven by understanding commodities risk, treasury risk and capital structure, so I think the treasury qualification has really helped me there." ♦

James Ashton is a freelance business journalist

ANDREW'S TOP TIPS FOR SUCCESS

♦
Communication is absolutely the key. Hone that with your internal and external audiences, get to know your business as well as you can. Colleagues really enjoy it when you ask them what they are doing and it will make you a better treasurer.

♦
The AMCT was a great grounding for learning the ropes. The MCT was great for corporate finance and broader business considerations.

♦
My favourite gadget is my iPod shuffle if I go for a run.

♦
The secret to career success – listen.

♦
The most difficult question my FD is likely to ask is: our coal units aren't making any money – what do we do now? The answer is to cut your costs and grow your revenues whichever way. We have to explore all the options.

♦
The best way to wind down after a stressful day is spending time with my kids or five-a-side football with the guys here.



ANDREW'S CV

2015-present
Chief executive, Drax Power Ltd

2013-2015
Director of strategy, Drax

2010-2013
Head of corporate finance and risk, Drax

2008-2010
Head of corporate finance and investor relations, Drax

2005-2008
Treasurer, Drax

2001-2005
Deputy group treasurer, Provident Financial

2000-2001
Financial services manager, KPMG

2000
Business analyst, Dresdner Kleinwort Benson

1996-1998
Head of global bond options and exotic derivatives middle office, UBS

1995-1996
Equity trade analyst, Lehman Brothers

1992-1995
Corporate tax accountant, Coopers & Lybrand

QUALIFICATIONS:

Mathematics, operational research, statistics and economics (MORSE) BSc (Hons) first class, Warwick University (1992), AMCT 2002, MCT (2003)