

Dear Sir/Madam

Electricity Market Reform Consultation

In response to the launch of the Electricity Market Reform consultation in December 2010, please find below the response from REG Bio-Power Limited.

Introduction

REG Bio-Power Limited is a wholly-owned subsidiary of Renewable Energy Generation (REG) which was set up in May 2005 with the single purpose of investing in renewable energy projects. REG is a fast-growing, independent, British renewable energy developer, owner and operator and listed on the AIM Stock Exchange, London. REG Bio-Power has researched and developed a process to purify Used Cooking Oil (UCO) into a fuel grade product known as LF100. LF100 is an 'End of Waste' fuel, in the sense that the UCO is relieved of unsuitable constituents and processed to recover a fuel which in all respects represents an improvement upon, and is environmentally preferable to, a range of natural or manufactured virgin fuels.

LF100 is a bioliquid designed for use in large scale power generation and Combined Heat and Power (CHP) applications. It can also be used in small to medium scale embedded generation and CHP plant. REG Bio-Power currently:

- owns (100%) and operates an open cycle 5MW power station in Suffolk Oil (using a bioliquid, LF100, produced from Used Cooking UCO);
- owns and operates a 0.4MW CHP generation plant on a recycling park in Norfolk fuelled by LF100 ;
- owns and operates a 150kW CHP generation plant on the Port of Dover in Kent fuelled by LF100;
- owns and operates a 20,000,000 litre bioliquid from waste processing plant in Norfolk;
- collects UCO from over 400 Local Authority Household Recycling Centres, schools and prisons;
- has a two year STOR contract with National Grid to provide 8MW of power;
- employs nine professional staff.

Response to consultation

- 1) Firstly, REG Bio-Power would like to make the point that the renewables industry and, in particular, the bioliquids from waste sector has suffered in recent years to continual revision and policy changes which have severely disrupted investment and development. There remains no certainty over how the bioliquids sector will be supported as it is not included in the current FIT regime and is not grandfathered under the RO. It has been announced today that bioliquids are not to be included in the RHI for 2011-2012. Clear direction from Government is required to allow this growing sector to develop further. Bioliquids are the perfect fuel type to allow embedded generation at a local level, an objective which has featured in numerous Government pronouncements.
- 2) In answer to Question 1 of the consultation - The availability of investment for renewable energy is affected by many factors but it is REG Bio-Power's view that retention of the RO provides the basis for supporting the investment needed, as evidenced by the significant growth in renewable energy under the RO with the key advantage of maintaining/enhancing investor confidence through regulatory continuity. REG Bio-Power does not believe that the Government has made a clear

enough case as to the reasons for replacing a mechanism, the RO, that has worked successfully in the past.

- 3) In answer to Question 3 - In the event that the option of retaining the RO is not adopted, REG Bio-Power sees the Premium FIT as the clear second choice for supporting low-carbon energy growth and meeting the energy challenges this project seeks to address. However, changing the current regime risks stalling investment in the sector by anything up to two years whilst the changes are implemented. Unless such a change is made in a decisive manner to clear and well-understood mechanisms, this will be time lost. As such, the premium FIT option offers investors the most straightforward switch to a new funding regime as long as bioliquids are included. Obviously, those technologies such as bioliquids that are not currently covered by the FIT scheme would need to be included.
- 4) In answer to Question 4 - We do not support the Government's preferred policy of introducing a contract for difference based feed-in tariff. There are still too many questions as to how CfDs would work.
- 5) In answer to Question 31 - REG Bio-Power would recommend strongly that auctions/tenders are omitted from the process of FIT price-setting. Such an approach would act as a huge barrier to investment by materially increasing price uncertainty and volatility. For renewable energy technologies – where the availability of “fuel” is often concentrated in certain areas or types of area – such an approach can have adverse, unintended consequences for the deployment of renewable generation.
- 6) In answer to Question 36 – REG Bio-Power would prefer that all new renewable electricity capacity accrediting after the introduction of the low-carbon support mechanism but before 1 April 2017 should have a choice between accrediting under the RO or the new mechanism.
- 7) In answer to Question 38 – REG Bio-Power would prefer to continue using both target and headroom for calculating the Obligation post 2017.
- 8) REG Bio-Power and its operating subsidiary, Living Fuels, has actively lobbied for bioliquids, especially those produced from waste feedstocks such as UCO, to be eligible for grandfathered support under the Renewables Obligation. Investors now understand the RO enough to justify equity investment and to forecast the ongoing economics of bioenergy projects. Excluding all bioliquids from grandfathered support, even those which are demonstrably sustainable, as is current Government policy, negates the considerable investment which has been made in the renewable energy sector. The incentivisation of waste-derived, sustainable bioliquids, and in particular those used in electricity and CHP generation, contributes to various UK and EU policy objectives, including the promotion of energy efficiency, the promotion of decentralised energy, action against climate change, building a low-carbon economy, collection and recovery of wastes, and the development of new energy densification technologies. However, despite these real and quantifiable benefits, DECC's current policy position to exclude ALL bioliquids from grandfathered support actually creates a disincentive – to the point of threatening commercial viability – to the use of highly sustainable bioliquids such as those derived from waste and other residues. In particular, the lack of guaranteed support for waste-derived bioliquids will impact on investment in advanced conversion technologies, whereby tricky waste streams are converted into bioliquids. If Government wishes to create the conditions for this sector to develop, the guaranteeing of support for bioliquids derived from wastes will

be absolutely critical. If grandfathering is not introduced then bioliquids from waste should be given the option to move into whatever new mechanism is finally chosen.

I am happy to expand further on the above observations/ responses if required and my contact details are listed below.

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REG Bio-Power Limited
2 King Street
Nottingham
NG1 2AX

