

Andy MacFaul
Head of Better Regulation
Ofgem
9 Millbank
London
SW1P 3GE

17th September 2009

Dear Mr MacFaul,

RE: OFGEM'S FIVE YEAR STRATEGY 2010-15

I am writing on behalf of Green2Go, one of the UK's leading providers of renewable and sustainable heat and power solutions, with a view to feeding into the process for the development of Ofgem's Five Year Strategy 2010-15. Green2Go welcomes the opportunity to feed in its thoughts on the future strategy and priorities for Ofgem and to outline some of the challenges currently facing the renewable energy industry.

THE KEY CHALLENGES FOR THE RENEWABLE ENERGY INDUSTRY

It is Green2Go's view that there are a number of significant challenges currently facing the renewable energy industry. We are particularly concerned about the impact of the March 09 Ofgem ruling¹ which prevents bio-diesels produced using methanol from being included in the Renewables Obligation (RO) scheme. Ofgem's ruling is based on a technical interpretation of the law which classes the entirety of the bio-diesel produced in this way as a fossil fuel under Article 9 of the Renewables Obligation, despite the fact that the fossil fuel element of the fuel is relatively small (around 11% fossil fuel by mass).

Green2Go produces bio-diesel from used cooking oil, a process which typically uses methanol and a catalyst. Bio-diesel produced in this way is widely recognised to be one of the most sustainable bio-fuels. Given our bio-diesel recycles a waste product, it also avoids the issues surrounding the impact of bio-fuels on indirect land use change. Green2Go then uses these bio-fuels to create electricity and heat in micro-generation stations in public and private sector buildings.

Given that the RO is the main support scheme for renewable electricity projects in the UK, it is particularly concerning that the effect of the ruling means the scheme is not acting as an incentive to the use of currently available sustainable renewable fuels in the generation of electricity and heat. Because of the significant cost implications, and coupled with a range of other challenges facing the industry, Green2Go believes the ruling is likely to have a devastating effect on the UK's nascent bio-fuels industry and will have serious ramifications for future domestic supply of renewable energy. A direct effect of the ruling is that a number of micro-generation and CHP schemes have been halted as they are no longer viable. In addition, the position is inconsistent with the treatment of this type bio-diesel under the Renewable Transport Fuel Obligation.

Green2Go itself has made extensive efforts to address the requirements of the Ofgem ruling, initially sourcing recycled methanol which is in itself a waste product. However, once again this approach was excluded from participation in the RO despite contributing to both renewables

¹ <http://www.ofgem.gov.uk/Sustainability/Environment/RenewablObl/Documents1/Bio-diesel%20Decision.pdf>

generation and waste re-use. It is worth noting that recycled methanol use is encouraged in the rest of Europe and certified by the EU as a sustainable second generation fuel.

In addition, Green2Go is concerned that the opportunity for on-site micro-generation powered by sustainable bio-diesel and other waste derived products is not being taken advantage of due to the uncertainty created by the Ofgem ruling and the limited returns proposed for this technology in the draft Renewable Electricity Financial Incentives. It is critical that investment in micro-generation technologies is made attractive by setting appropriate levels for RO certificates and feed-in tariffs (FITs); at present, the proposed level of FITs relating to bio-fuels CHPs are at too low a level and will not encourage investment. Micro-generation can also be effectively promoted by simplifying and speeding up the process of connection to the grid. There is undoubtedly a reduction of interest in investing in low carbon technology in the UK. Long-term certainty and the correct level of return to encourage investment is therefore essential to ensure the industry's future.

HOW OFGEM SHOULD RESPOND TO THESE CHALLENGES

Given that a key priority for Ofgem is to contribute to the drive to curb climate change, we would be keen to see Ofgem working to ensure sustainable renewable energy and micro-generation are promoted in the UK given the clear impact this has on reducing carbon emissions; for example, a sustainable bio-fuel combined heat and power system will deliver an 85% reduction in carbon compared with traditional grid heat and power. As the administrator of the RO, Ofgem is uniquely placed to ensure the scheme is having the desired effect, encouraging renewable electricity projects, and particularly proven sustainable renewable projects. In addition, by increasing the proportion of efficient and viable UK-generated renewable energy schemes, and particularly on-site micro generation, there will be a significant improvement of energy security in the UK.

Ofgem has stated that its ruling is the result of the interpretation of current legislation yet Green2Go fundamentally believes this is entirely inconsistent with the Government's desire to promote the generation of sustainable renewable energy. In such a case where the RO is not incentivising sustainable renewable energy generation, it is vital that Ofgem ensures the issue is given the appropriate attention and actively makes representations to the Department of Energy & Climate Change. The ruling has already had an impact on the UK's nascent renewable energy industry and it is critical moving forwards that the sector is enabled to thrive to ensure a strong domestic supply for the UK and to assist the UK's climate change mitigation efforts.

THE ORDER OF PRIORITY OFGEM SHOULD GIVE TO THEIR AREAS OF WORK IN RESPONSE TO THESE CHALLENGES

Green2Go believes the top priority for Ofgem should be tackling climate change in its role as regulator of the electricity and gas markets. We were therefore pleased to see this role reiterated as part of the Government's recently published Low Carbon Transition Plan. Green2Go would be keen to see Ofgem more actively promoting the sustainable renewable energy industry in their role as administrator of the RO scheme and in their dealings with the Department of Energy & Climate Change.

We look forward to the publication of Ofgem's strategy in due course and hope it will be possible to address some of these issues. Please do feel free to get in touch if you require any further information.

Yours sincerely,

Richard O'Keefe
Director, Green2Go

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