

<b>Title:</b> <b>Cost recovery for approving offshore (oil and gas) decommissioning programmes</b> <b>Lead department or agency:</b> Department of Energy and Climate Change <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>
	<b>IA No:</b> DECC0028
	<b>Date:</b> 30/03/2011
	<b>Stage:</b> Consultation
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
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## Summary: Intervention and Options

### What is the problem under consideration? Why is government intervention necessary?

The Department does not currently charge Industry a fee for approving/revising offshore (oil and gas) decommissioning programmes. The Department therefore intends to charge Industry a fee for providing this function rather than passing the costs onto the taxpayer which would also be in line with the 'polluter pays' principle of environmental law. The Petroleum Act 1998 ("the Act") provides powers for the regulation of decommissioning offshore installations and pipelines. Section 29 of the Act requires a person(s) to submit a decommissioning programme setting out the measures proposed to be taken in connection with the decommissioning of offshore infrastructure. Section 29 and 34 of the Act allows the Department to charge a fee in respect of its expenditure for approving/revising such programmes.

### What are the policy objectives and the intended effects?

The aim is to ensure that person(s) responsible for offshore (oil and gas) installations and pipelines pay an appropriate fee on;

- submission of a decommissioning programme;
- receipt of a proposal to revise a decommissioning programme.

This would enable the Department to recover its expenditure and ensure full cost recovery which we believe would be fair to both Industry and the taxpayer. As workload increases this will enable the Department to balance workload against resources and continue providing an effective function to Industry.

### What policy options have been considered? Please justify preferred option (further details in Evidence Base)

- Do nothing – Central government continue to fund the costs of Offshore Decommissioning Unit ("ODU") within DECC. 2009/2010 costs: £700,000-£800,000.
- Charge a fee for approving and revising offshore (oil and gas) installations and pipelines decommissioning programmes which covers the current cost to the ODU of £700,000-£800,000. In light of current economic conditions and the recent Government Spending Review it is essential that DECC recovers costs wherever possible. This would seem a reasonable approach given that a fee shouldn't be an unreasonable burden on industry and that colleagues within the Offshore Environment Unit of DECC already charge a fee for processing offshore (oil and gas) environmental permits and consents. This option would also enable the Department to continue providing an effective function to Industry. It is not expected there will be any transitional costs or annual recurring costs to society as a whole if the preferred option is adopted.

<b>When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?</b>	It will be reviewed 01/2014
<b>Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?</b>	Yes

**SELECT SIGNATORY Sign-off** For consultation stage Impact Assessments:

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible SELECT SIGNATORY:..... Date:.....

**Description:**

Do Nothing. (The Offshore Decommissioning Unit within DECC continues to be funded by central Government).

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

<b>COSTS (£m)</b>	<b>Total Transition</b> (Constant Price) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)	<b>Total Cost</b> (Present Value)
Low	0		0	0
High	0		0	0
Best Estimate	0		0	0

**Description and scale of key monetised costs by ‘main affected groups’**

Industry – no extra costs.

Under the current system Government bears the full cost for approving/revising offshore (oil and gas) decommissioning programmes. This represents a cost to the Offshore Decommissioning Unit, whose sole responsibility is to fulfil this activity, of £800,000 a year.

**Other key non-monetised costs by ‘main affected groups’**

No significant social or environmental costs.

<b>BENEFITS (£m)</b>	<b>Total Transition</b> (Constant Price) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)	<b>Total Benefit</b> (Present Value)
Low	0		0	0
High	0		0	0
Best Estimate	0		0	0

**Description and scale of key monetised benefits by ‘main affected groups’**

No additional benefits.

**Other key non-monetised benefits by ‘main affected groups’**

No significant social or environmental benefits.

**Key assumptions/sensitivities/risks**

Discount rate (%) 3.5

ODU currently employs 10 staff who administer the provisions of Part 4 of the Petroleum Act 1998.  
Cost of operating Offshore Decommissioning Unit 2010/11: £800,000.

<b>Impact on admin burden (AB) (£m):</b>			<b>Impact on policy cost savings (£m):</b>	<b>In scope</b>
New AB: NIL	AB savings: NIL	Net: NIL	Policy cost savings: NIL	Yes

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			UK Wide		
From what date will the policy be implemented?			1 April 2011		
Which organisation(s) will enforce the policy?			DECC		
What is the annual change in enforcement cost (£m)?			NIL		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			N/A		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A	<b>Non-traded:</b> N/A	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			<b>Costs:</b> N/A	<b>Benefits:</b> N/A	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	<b>Micro</b> Nil	<b>&lt; 20</b> Nil	<b>Small</b> Nil	<b>Medium</b> Nil	<b>Large</b> Nil
Are any of these organisations exempt?	No	No	No	No	No

**Description:**

Charge a fee to Industry for approval and revision of offshore oil and gas installations and pipelines decommissioning programmes

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate:-0.19

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low			
High			
Best Estimate	£0.02	£0.82	£6.84

**Description and scale of key monetised costs by 'main affected groups'**

Industry – 2011/12: £800,000. This is the assumed cost per annum at 2010 prices – the Net Present Value over 10 years is £6.6m.

Government – Setting up the new procedures is expected to involve a small transitional cost (£20,000) and a small annual cost (£20,000).

**Other key non-monetised costs by 'main affected groups'**

No significant social or environmental costs.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			
High			
Best Estimate	£0.0	£0.80	£6.65

**Description and scale of key monetised benefits by 'main affected groups'**

£6.6m benefit is the benefit to Government from transferring the costs of the Offshore Decommissioning Unit for approving offshore (oil and gas) decommissioning programmes to business.

**Other key non-monetised benefits by 'main affected groups'**

No significant social or environmental benefits.

**Key assumptions/sensitivities/risks**

Discount rate (%) 3.5

ODU currently employs 10 staff who administer the provisions of Part 4 of the Petroleum Act 1998.

Cost of operating Offshore Decommissioning Unit 2010/11: £800,000.

The assumption is that the cost to Industry is the same as the current cost of operating the Offshore Decommissioning Unit to provide this function.

Transitional/annual costs: £20,000 each. Based on the need for one person costing £40k to spend 50% of their time implementing new procedures.

<b>Impact on admin burden (AB) (£m):</b>			<b>Impact on policy cost savings (£m):</b>	<b>In scope</b>
New AB: NIL	AB savings: NIL	Net: NIL	Policy cost savings: NIL	Yes

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	UK Wide				
From what date will the policy be implemented?	1 April 2011				
Which organisation(s) will enforce the policy?	DECC				
What is the annual change in enforcement cost (£m)?	£0.8				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	Traded: N/A		Non-traded: N/A		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: N/A		Benefits: N/A		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro NIL	< 20 NIL	Small 200K	Medium 200K	Large 400K
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties</b> <sup>1</sup> <a href="#">Statutory Equality Duties Impact Test guidance</a>	No	10
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	No	10
Small firms <a href="#">Small Firms Impact Test guidance</a>	No	10
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	10
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	10
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	No	10
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	11
Justice system <a href="#">Justice Impact Test guidance</a>	No	10
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	11
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	10

<sup>1</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

## Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

### References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	2011 Consultation
2	Decommissioning of offshore oil and gas installations and pipelines under the Petroleum Act 1998 Guidance Notes: <a href="https://www.og.decc.gov.uk/regulation/guidance/decommission.htm">https://www.og.decc.gov.uk/regulation/guidance/decommission.htm</a>
3	Petroleum Act 1998 – Part 4: <a href="http://www.legislation.gov.uk/ukpga/1998/17/part/IV">http://www.legislation.gov.uk/ukpga/1998/17/part/IV</a>
4	

### Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The measure has no impact on greenhouse gas emissions therefore no requirement to complete the attached spreadsheet which contains an emission changes table.

#### Annual profile of monetised costs and benefits\* - (£m) constant prices

	Y <sub>0</sub>	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>	Y <sub>4</sub>	Y <sub>5</sub>	Y <sub>6</sub>	Y <sub>7</sub>	Y <sub>8</sub>	Y <sub>9</sub>
<b>Transition costs</b>	0.02	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Annual recurring cost</b>	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82
<b>Total annual costs</b>	0.84	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82
<b>Transition benefits</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Annual recurring benefits</b>	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>Total annual benefits</b>	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8

\* For non-monetised benefits please see summary pages and main evidence base section



Microsoft Office  
Excel Worksheet

## Evidence Base (for summary sheets)

### The problem

1 Government currently does not charge Industry for approving and revising offshore (oil and gas) decommissioning programmes. Therefore, the Offshore Decommissioning Unit (“ODU”) bears the full cost of approving and revising the offshore (oil and gas) decommissioning programmes.

### The rationale

2 In light of the Spending Review, it is important that DECC recovers its costs from Industry where this is deemed to be a practical option. Transferring the cost associated with approving and revising offshore (oil and gas) decommissioning programmes borne by the ODU to business will allow recovery of costs and is consistent with the ‘polluter pays’ principle of environmental law. The Department would not be seeking to make a profit from such a charge but merely recover its costs in carrying out these functions.

### Background

3 The Petroleum Act 1998 (“the Act”) provides powers for the regulation of decommissioning offshore installations and pipelines. Section 29 of the Act requires a person(s) to submit a decommissioning programme setting out the measures proposed to be taken in connection with the decommissioning of such offshore infrastructure. Sections 29 and 34 of the Act also allows the Department to charge a fee in respect of its expenditure for approving and revising such decommissioning programmes. The Offshore Decommissioning Unit (“ODU”) of the Energy Development Unit in DECC administers the provisions of Part 4 of the Act (Section 29-45). Section 29 of the Act enables the Secretary of State (through ODU) to serve notices requiring the recipient(s) to submit a costed decommissioning programme for his approval at such time as he may direct. A notice under Section 29 of the Act is an essential first step in the process to ensure that the recipient(s) is liable to submit and carry out a decommissioning programme at a later date. ODU currently employs ten staff who administer the provisions of Part 4 of the Act. The costs of operating ODU for the 2010/2011 financial year are in the region of £700,000 to £800,000.

4 In light of current economic conditions and the recent Government Spending Review it is essential that DECC recovers costs wherever possible. The Department is therefore intending to make changes to the operation of its decommissioning regime and proposes to charge a fee when a person(s) submits a programme or requests a revision to an offshore (oil and gas) installations and pipelines decommissioning programme. The Department therefore intends to implement a charging regime to recover its expenditure in carrying out functions under Part 4 of the Petroleum Act 1998 and has set out four possible sub-options for consideration which will enable full cost recovery.

### Policy objective

5 The overall objectives of the new charging system are:

- i) to seek a change to the current regime and charge a fee when a person submits or requests a revision to an offshore (oil and gas) installations and pipelines decommissioning programmes and;
- ii) to allow the Department to recover its expenditure in carrying out the functions under Part 4 of the Petroleum Act 1998.

## **Description of options considered**

6 The underlying purpose is for the Department to recover its expenditure in carrying out the functions under Part 4 of the Act. The Department will not be seeking to make a profit from such a charge but merely recover its costs in carrying out those functions. The current consultation seeks views on the Government's proposals. Two options are considered in this Impact Assessment: the option to do nothing and the option to introduce the Government's proposals. These are described below.

### Option 1: Do nothing

7 Doing nothing means not introducing the changes proposed to the current decommissioning regime. It assumes the world would otherwise continue and any other wider developments would continue. That is, the ODU would continue to pay for the costs involved in carrying out the functions under Part 4 of the Act and no cost to Industry. This represents a cost to the ODU, whose sole responsibility is to fulfil this responsibility, of £800,000 a year. The purpose of considering a 'do nothing' option is to establish the counterfactual or baseline against which alternative options can be assessed.

### Option 2: Introduce the Government's proposals

8 The offshore oil and gas regime is a reserved matter. these proposals apply to all of the UK territorial waters and to the United Kingdom Continental Shelf. Under option 2, the Government therefore proposes to use its powers under Sections 29 and 34 of the Act to charge a fee payable on submission of a decommissioning programme and on receipt of a request for the revision of a programme. Section 39 of the Act enables the Secretary of State to make regulations and provision as to the determination of the amount of any fees that are payable. As the Department facilitates the decommissioning programme process it would therefore seem fair that the companies leading to this expenditure should make a contribution to such costs and enable DECC to maintain those functions.

## **Approach to the Impact Assessment**

9 Costs and benefits have been quantified and monetised where possible. There is inherently some level of uncertainty about the future impacts of any policy or system. Therefore it is necessary for a number of assumptions to be made. Specific assumptions made are explained in the following section.

10 The key general assumptions made are reported in the Analysis and Evidence summary page. The rationale for these assumptions is as follows:

- 2010 is chosen as the price base year and Present Value base year as the final decision on whether or not to go ahead with the changes will be taken during 2010.
- Costs and benefits are assessed over 10 years as there is no reason to depart from the general advice in the Better Regulation Executive's Impact Assessment toolkit to use this time frame.
- 3.5% is used as the discount rate in line with the Treasury Green Book guidance.
- Transitional/annual costs: £20,000 each. Based on the need for one person costing £40k to spend 50% of their time implementing new procedures.



## Impact of option 2: introduce the Government's proposal

### Introduction

12 This section sets out the costs and benefits of the proposal. Table 1 below provides a summary of the costs and benefits associated with option 2, measured against the baseline of the do nothing option; option 1. All values are expressed at 2010 prices.

Table 1: Summary of costs and benefits of option 2

	Description of monetised impact	Discounted (at 3.5%) NPV
<b>Costs</b>		
Transitional cost to government associated with changing system	£20,000 cost to government for 2011	-£19,000
Annual recurring cost to government associated with determining price to charge individual businesses for accepting and revising programmes	£20,000 cost to government per year	-£166,000
Cost to business from transferring the ODU costs from government to business	£800,000 cost to business per year	-£6,653,000
<b>Benefits</b>		
Benefit to government from transferring costs of ODU to business	£800,000 benefit to government per year	£6,653,000
<b>TOTAL</b>		<b>-£185,000</b>

### Transitional and Annual costs

13 Setting up the new procedures is expected to involve a small transitional cost (£20,000) and a small annual cost (£20,000) given that colleagues within the Offshore Environment Unit which is part of the Offshore Environment and Decommissioning Branch of DECC already have mechanisms in place to recover their costs for issuing offshore (oil and gas) environmental permits and consents. Industry will therefore pay the Departmental costs associated with providing the function to approve and revise decommissioning programmes. The cost to business resulting from the new procedures are expected to be as follows:

- Charge a fee on submission of offshore (oil and gas) installations and pipelines decommissioning programmes and requests to revise an approved programme: £800,000 per year.

## Benefits

14 Benefits expected from implementing the new procedures:

- i) Central government will not be required to fund the function of the Offshore Decommissioning Unit and will benefit from the transfer of costs.
- ii) Charging a fee for approving and revising decommissioning programmes will enable the Offshore Decommissioning Unit to maintain the function it provides to Industry.

## Administrative burden and policy cost savings

15 Administrative burdens are defined as the information obligations imposed by proposals. This is the cost associated with providing information to Government. It is not anticipated that the Government's proposals will place an administrative burden on Industry.

16 These proposals have no policy cost savings. It is expected there will be a small administration cost associated with the proposal.

## **Specific impact tests**

### Carbon Impact Assessment

17 These proposals will not have an effect on any of the determinants of carbon emissions such as the level or energy-intensity of production.

### Competition assessment

18 This standard competition assessment test involves considering whether the proposal directly limits the number or range of suppliers, indirectly limits the number or range of suppliers, limits the ability of suppliers to compete or reduces suppliers' incentives to compete vigorously. The proposals will not affect competition in any of these ways.

### Small Firms impact test

19 The costs of the proposals are not expected to fall disproportionately on small businesses. See summary Impact Assessment sheet - Annual cost (£m) per organisation.

### Unintended consequences

20 Consideration has been given to potential adverse side effects of the proposals and none has been identified to date.

### Legal Aid Impact Test & Justice System

21 The impacts of the legal aid test are not relevant to the introduction of a fee in relation to approving offshore oil and gas decommissioning programmes.

### Economic

22 No specific economic effects are expected beyond those in the core analysis.

### Other environmental effects

23 The proposals are not expected to have any effect on environmental outcomes.

### Health Impact Assessment

24 There are no significant health impacts as a consequence of the proposals.

### Sustainable Development Principles

25 These proposals directly supports one of the five principles of sustainable development – that of 'promoting good governance'.

### Other equality issues

26 The following reports the conclusions made for the other issues that have been considered to test for differential impacts:

- **Race equality.** None identified
- **Gender equality.** None identified
- **Disability equality.** None identified

- **Human rights.** None identified
- **Rural areas and regional.** The proposal will affect companies who submit a decommissioning programme for offshore (oil and gas) installations and pipelines; and companies who submit a request for a revision to a decommissioning programme. Therefore this will depend on where these companies are based.
- **Age and income.** None identified.
- **Devolved countries.** The proposals apply to all of the UK territorial waters and to the United Kingdom Continental Shelf.

### **Summary and preferred option with description of implementation plan**

27 DECC's preferred option is to implement the Government's proposal. The ODU within DECC would be responsible for implementing the proposals which are expected to take effect in October 2011. As with other functions, the ODU will carry out monitoring and review of the efficacy and outcomes.

## Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added to provide further information about non-monetary costs and benefits from Specific Impact Tests, if relevant to an overall understanding of policy options.

### Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p><b>Basis of the review:</b> [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review]; DECC will review the policy after three years and will also review the charging mechanism on a yearly basis as a matter of good practice. The Regulations are likely to provide for fees to be determined on an annual basis. If the level of fees changes as a result of this determination, any changes will be reported to the Treasury.</p>
<p><b>Review objective:</b> [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?] To ensure the charging mechanism is operating efficiently and the new measures are working as expected. To inform the level of charges.</p>
<p><b>Review approach and rationale:</b> [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach] The focus is likely to be reviewing and monitoring the charging mechanism and evaluating whether the system is achieving the intended objective.</p>
<p><b>Baseline:</b> [The current (baseline) position against which the change introduced by the legislation can be measured] The baseline position is continuing with the current system whereby central government continues to fund the Offshore Decommissioning Unit within DECC.</p>
<p><b>Success criteria:</b> [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives] This criteria will be developed by DECC to ensure the Department recovers its costs and carries out its functions under Part 4 of the Petroleum Act 1998. Full cost recovery will allow the Department to maintain those functions to Industry.</p>
<p><b>Monitoring information arrangements:</b> [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review] DECC will develop systems to review and monitor information to ensure full cost recovery.</p>
<p><b>Reasons for not planning a PIR:</b> [If there is no plan to do a PIR please provide reasons here] N/A</p>