Regulatory Policy Committee	**Opinion**
Impact Assessment (IA)	Future management of the compulsory stockholding obligation in the UK
Lead Department/Agency	Department for Energy and Climate Change
Stage	Final
IA number	DECC0117
Origin	Domestic
Expected date of implementation (and SNR number)	October 2015 (SNR 10)
Date submitted to RPC	08/07/2013
RPC Opinion date and reference	13/08/2013 RPC12-DECC-1636(2)
Overall Assessment	**GREEN**

RPC comments

The IA is fit for purpose. However, the Department should explain more clearly why the recommended option does not have the highest NPV and its basis for choosing it. The IA should also discuss further the advantages/disadvantages of a private sector-led, rather than government-led, solution and provide any evidence in support of non-monetised considerations.

The Department has addressed the comments we made at consultation. The IA would have benefited from some further explanation of the changes to the benefit estimates since then.

Background (extracts from IA)

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

"The UK is required by the EU and the IEA to hold emergency stocks of oil products to release to market in the event of global short-term oil supply disruptions, known as the compulsory stocking obligation (CSO). The amount of stocks the UK is required to hold is forecast to rise in the future as UK Continental Shelf production declines. To satisfy these obligations, currently Government issues individual directions to business. The present system prohibits industry from working together to collectively manage the UK's obligation, as the UK does not have a Centralised Stocking Entity (CSE). There are concerns the present system creates underinvestment in adequate storage, and may harm the ability of the UK to meet the CSO in the long-run, posing a long-run risk to resilience."

What are the policy objectives and the intended effects?

"The policy objective is to ensure that the CSO continues to be met as the overall obligation increases in the future; so that the UK both holds and can deploy sufficient emergency stocks to mitgate the detrimental impacts on the UK, EU and IEA members of any global oil supply disruption. This supports Government's objectives to improve energy resilience."

What policy options have been considered?

“Option1: “do nothing”. The UK’s CSO continues to be met through issuing individual directions on obligated companies.

Option 2: Government Strategic Reserve. Companies remain obligated to meet the current CSO but Government manages the total increase in the overall stocking obligation by purchasing physical stocks and tickets to meet the obligation.

Option 3: Private Stockholding Agency. Government facilitates the setting up of a private agency which obligated companies will use to manage the increase in obligation, by purchasing stocks and tickets. The agency would be a ‘not for profit’ body funded by contractual fees in proportion to stock volumes delegated and would have the potential to manage the entirety of the obligation. This option has no cost to the exchequer.

Option 4: Government top slice option. This is a middle ground between Government Strategic reserve and a private stockholding agency, where Government owns stocks through the agency.

Option 3 is the preferred option as it presents welfare benefits without a cost to the exchequer. We believe a private stockholding agency will increase investment certainty and better manage the aggregate obligation by exploiting economies of scale and scope.”

Comments on the robustness of the OITO assessment

The Department states in its IA that it is a regulatory proposal which is net beneficial to business (an ‘IN’ with Zero Net Cost). This assessment is consistent with the current Better Regulation Framework Manual (paragraph 1.9.12) and provides a reasonable assessment of the likely impacts.

Comments on the robustness of the Small & Micro Business Assessment (SMBA)

The Department explains in its SMBA (paragraph 89) that this proposal does not affect small and micro businesses as only firms that supply more than 50,000 tonnes of oil product into the UK are subject to the obligation.

Quality of the analysis and evidence presented in the IA

The Department is recommending option 3 even though this does not have the highest NPV. The IA provides an explanation for this but it should more clearly explain that the higher NPV in option 2 is entirely due to the lower cost of capital to government.

The IA refers briefly to non-monetised benefits of option 3 and higher cost risk associated with option 2. The IA should cite any evidence in support of this. More generally, the IA should discuss further the advantages/disadvantages of a private sector-led, compared to government-led, solution. This might draw upon any relevant historical experience.

The Department has addressed the comments we made in our opinion (dated 23/01/13) on the earlier Consultation Stage IA. The IA provides a useful section (page 16) on the changes to the estimates since the Consultation Stage IA. The IA would have benefited from some further explanation of the changes, including how they resulted in the revised estimates in the table on page 11.

Signed	**Michael Gibbons,** Chairman