

Energy Bill 2015 Amendments – Oil and Gas Authority (OGA) measures

Department of Energy and Climate Change

RPC rating: Fit for purpose

Description of proposal

The Energy Bill 2015 provides primary powers to establish an independent regulator, the Oil and Gas Authority (OGA), and provide it with the powers to ensure all parties within the oil and gas industry act in way consistent with the Maximising Economic Recovery for the UK Continental Shelf (MER UK) strategy. This proposal introduces a number of further measures, via amendments to the Energy bill, to support the creation of the Oil and Gas Authority (OGA). This IA covers further elements of the Government's phased implementation of the Wood Review recommendations, which have been accepted in full by the previous Government. Implementation will be undertaken in sections to allow for policy development and consultation with industry. It is, therefore, the Department's intention to submit a comprehensive 'holistic' impact assessment covering the implementation and scoring of the Wood Review's recommendations as a whole¹.

Impacts of proposal

The proposal supports the establishment of the OGA by granting it additional powers in 13 separate areas. The proposal will result in costs to the OGA as a result of it exercising the new regulatory powers. These costs will in turn be recovered from business via a levy. In response to the RPC's initial review, the Department now correctly indicates that these costs are direct costs to business.

The Department provides an indicative assessment that this proposal could impose costs on business in the following three areas:

- The duty on those decommissioning offshore installations and pipelines to consult the OGA on their proposals. The Department estimates that this will impose costs on business of £0.64 million (NPV). This comprises £0.27 million of additional cost to business plus £0.37 million of cost to the OGA, which will be recouped from business via the levy.

¹ UK continental shelf maximising recovery review – Sir Ian Wood, February 2014

- The application of the sanctions regime for non-compliance with the Third Party Access Regime. Under the central scenario, the Department assumes 100 percent compliance, so there will be no costs to business except for those incurred via the OGA levy. However, under the high scenario, the Department assumes there will be one case per annum that will impose a cost on (non-compliant) business of £0.12 million (NPV).
- Amendments to the levy power and the power for the OGA to charge fees. Under the high scenario, the Department assumes a cost to business of £0.19 million (NPV) per annum resulting from possible judicial costs and use of the HM Courts and Tribunal Service. However, the central case is that this measure is not used.

The Department assumes that the proposal will provide a benefit to business, ultimately from increased oil extraction, through implementing the Wood recommendations. In particular, within this IA, the Department believes that consultation with the OGA on decommissioning proposals will result in cost reductions that will significantly outweigh the costs of consulting the OGA.

Quality of submission

The Department has provided additional detail of how, as result of the expansion of regulatory activity resulting from the OGA levy, this will impact upon business. The proposal will result in costs to the OGA in relation to it exercising the new regulatory powers. This will be recovered from business via a new levy or the direct fees scheme. The IA now provides a discussion of the potential impact of this proposal on the OGA levy.

As initially submitted, the IA did not monetise the impact on business of the costs incurred through the OGA levy. This impact is now treated correctly in the revised IA. In this case, as the scoring of these proposals is a complex issue, the RPC does not judge that the original IA was not fit for purpose.

Since the duty on those decommissioning offshore installations and pipelines to consult the OGA on their proposals will impose a cost on business, the IA would also have benefitted from providing further evidence to estimate the benefits. This should be considered further as the policy is developed. In addition, in estimating employment costs, the Department should quote the specific ASHE dataset used and the uplift factor it has employed.

Overall, the IA appears to provide a reasonable assessment of the likely impacts of the proposal. The proposal will impose direct costs on business via the OGA levy. The Department assumes that these costs will be outweighed by the benefits. However, these benefits are likely to be considered indirect. The Department intends to submit a 'holistic' IA, which will comprehensively update and assess all the cost and benefit estimates resulting from the Wood Review. The costs outlined in this IA must be included in the 'holistic' IA for scoring against the BIT. The Department should score the benefits of this proposal, along with other benefits resulting from the establishment of the OGA as indirect or provide further evidence why these are direct benefits to business.

Other comments

The SaMBA is sufficient. The exact number of small and micro businesses involved in the exploration of, and production of oil and gas on, the UK Continental Shelf is unknown. However, it is expected that such businesses would benefit from access to infrastructure and joint working within the industry. They would, therefore, not be excluded from the policy and there is no expectation that the proposal will impose a disproportionate burden upon them.

Initial departmental assessment

Classification	Qualifying regulatory provision
Equivalent annual net cost to business (EANCB)	Not monetised
Business net present value	Not monetised
Societal net present value	Not monetised

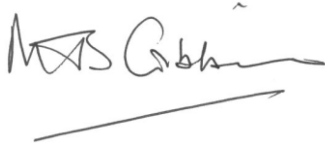
RPC assessment²

Classification	Qualifying regulatory provision
Equivalent annual net cost to business (EANCB) – RPC validated	To be confirmed in subsequent IA
Small and micro business assessment	Sufficient

² The RPC verification of the estimated equivalent annual net cost to business (EANCB) and assessment of whether the measure is a qualifying regulatory provision are based on current working assumptions.

Opinion: Final
Origin: Domestic
RPC reference number: RPC15-DECC-3162(1)
Date of implementation: 2016

RPC rating (of initial submission)	Fit for purpose
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