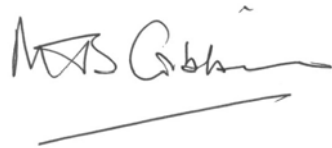


Regulatory Policy Committee		OPINION	
Impact Assessment (IA)		Introducing retail competition in the water sector	
Lead Department/Agency		Department for Environment, Food and Rural Affairs	
Stage		Final	
Origin		Domestic	
Date submitted to RPC		02/12/2011	
RPC Opinion date and reference		06/12/2011	RPC11-DEFRA-1128(2)
Overall Assessment		AMBER	
<p>The IA is fit for purpose. Following the earlier RPC Opinion of 02/12/2011, the IA has been amended to give greater clarity of why option 5 has been chosen, despite it having the lowest NPV.</p>			
<p>Identification of costs and benefits, and the impacts on small firms, public and third sector organisations, individuals and community groups and reflection of these in the choice of options</p>			
<p>The IA is primarily based on analysis from the independent review of water competition by Martin Cave and further supported by evidence from Ofwat and other sources which appear reliable. However, the quantitative evidence provided in the IA does not support the recommendation to proceed with option 5, the preferred option. Nor did the Cave report provide support for that option.</p>			
<p>Following the RPC's Opinion of 02/12/2011, the IA has been revised to give greater clarity on why, despite option 5 having a lower NPV than other options, that this has been selected as the preferred approach.</p>			
<p><i>Abatement factor.</i> The IA uses abatements factors of 75% and 25% to differentiate between the competition benefits of option 2 and options 3, 4 and 5. This was used by the Cave Review and endorsed by an independent expert review of the evidence and therefore appears reasonable. However, as the IA is a stand alone document it could usefully have included some information from the Cave Review explaining how these abatement factors had been arrived at.</p>			
<p>Have the necessary burden reductions required by One-in, One-out been identified and are they robust?</p>			
<p>The IA says that under the current One-in One-out (OIOO) methodology this proposal should count as an IN (page 8). However, the IA says that the proposal will be recorded as a “net zero cost” while the Government considers the implications of economic regulation in the context of the OIOO methodology. The Better Regulation Executive has confirmed that it is content with this approach.</p>			

Signed

A handwritten signature in black ink, appearing to read "Michael Gibbons", with a long horizontal flourish underneath.

Michael Gibbons, Chairman