 Regulatory Policy Committee	Opinion	
Impact Assessment (IA)	Energy Saving Opportunity Scheme	
Lead Department/Agency	Department of Energy and Climate Change	
Stage	Final	
IA Number	DECC0142	
Origin	European	
Expected date of implementation (and SNR number)	SNR 7	
Date submitted to RPC	30/01/2014	
RPC Opinion date and reference	04/02/2014	RPC13-DECC-1779(2)
Overall Assessment	GREEN	
<p>RPC comments</p> <p>The IA is fit for purpose. The direct cost to business of carrying out an energy audit has been adequately assessed. Based on the evidence provided the RPC is able to validate that the policy is out of scope of ‘One-in, two out’. As this is a European measure we are also able to validate an equivalent annual net cost to business (EANCB) of £29 million. While these costs have been correctly assessed in the IA, the overall NPV is presented against the wrong counterfactual. . The IA uses the minimum implementation of the EU directive as the do nothing against which all of the options are assessed. This should be addressed before publication.</p>		
<p>Background (extracts from IA)</p> <p><i>What is the problem under consideration? Why is government intervention necessary?</i></p> <p><i>“The market for energy efficiency is characterised by a number of market failures. Enterprises typically lack awareness of how to reduce costs through energy efficiency. Article 8 of the Energy Efficiency Directive requires Member States to establish an energy audits regime under which all non-SME enterprises conduct an audit once every four years. Energy audits will need to include a detailed review of the energy consumption of an enterprise and identify the scope for improving the energy efficiency of its operations. The UK proposes to meet this requirement through introduction of the Energy Savings Opportunity Scheme (ESOS).”</i></p> <p><i>What are the policy objectives and the intended effects?</i></p> <p><i>“The objectives of the policy are to promote the take up of cost effective energy efficiency measures whilst minimising the cost to business of complying with the mandatory auditing requirements. By providing enterprises with tailored information about how they can make cost-effective savings ESOS should increase the take up of cost effective energy efficiency measures. This will increase productivity, support higher economic growth, reduce carbon emissions and improve security of supply.”</i></p> <p><i>What policy options have been considered, including any alternatives to</i></p>		

regulation? Please justify preferred option (further details in Evidence Base)

“The Impact Assessment includes three options which represent different approaches to implementing the minimum requirements of Article 8, and two options that go beyond the minimum requirements of the Directive, but may lead to higher benefits to the UK. Implementing this article is an EU legal obligation. An analysis of existing policies has concluded that they do not adequately meet the UK’s legal obligations under the Directive, and hence a do nothing option is not available. The Directive does not allow for transposing via self-regulation. The preferred option is Option 2 (implementing the minimum requirements of the Directive, with scheme administration through a central body, notification of compliance by organisations in scope and an option for organisations to voluntarily disclose the key audit results and action taken in light of audit) on the basis that this option minimises costs while offering the prospect of greater benefits than the other minimum-cost options.”

Identification of costs and benefits, and the impacts on business, civil society organisations, the public sector and individuals, and reflection of these in the choice of options

The policy requires large business to undertake an energy audit. This will present companies with recommendations on how to improve their energy efficiency. The policy does not require businesses to act on the recommendations, although it is expected that they will choose to do so.

The IA correctly assesses the relative costs and benefits of the options considered for implementing the EU directive. However, these appear to be assessed against an incorrect baseline. The IA uses the minimum implementation of the EU directive as the do nothing against which all of the options are assessed. This does not present an accurate picture of the full impact of the policy. The options should be assessed against the counterfactual that there is no EU directive in line with the Better Regulation Framework Manual (Paragraph 2.4.22).

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

The proposal is of European origin. A Small and Micro Business Assessment is therefore not required. The Department has included a section on small and micro businesses which explains that they will be exempt from the regulations.

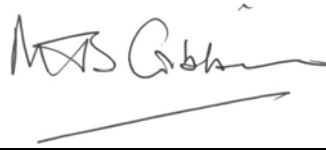
Comments on the robustness of the OITO assessment.

The IA says that, as the proposal is of European origin and does not go beyond minimum requirements, it is out of scope of OITO. This assessment is consistent with the Better Regulation Framework Manual (Paragraph 1.9.8 ii). In the interests of balanced reporting, an EANCB has been calculated for inclusion in the Statement of New Regulation (SoNR).

The policy will impose a direct cost on businesses by requiring them to undertake an

energy audit of their buildings and commercial fleets. Based on the evidence presented, the RPC is able to confirm an equivalent annual net cost to business (EANCB) of £29 million.

Signed

A handwritten signature in black ink, appearing to read "Michael Gibbons". The signature is written in a cursive style with a long horizontal stroke at the end. Below the signature is a long, thin horizontal line that ends in an arrowhead pointing to the right.

Michael Gibbons, Chairman