

Maximising Economic Recovery of offshore UK petroleum strategy

Department of Energy and Climate Change

RPC rating: fit for purpose

Description of proposal

In June 2013, the Government asked Sir Ian Wood to conduct a review of oil and gas recovery from the UK Continental Shelf (UKCS). The central recommendations made by the 'Wood Review' were to develop and commit to a new strategy for maximising economic recovery from the UKCS and to establish a regulator to assist in achieving that strategy. The Government has accepted these recommendations.

The Infrastructure Act (2015) creates an obligation upon the Secretary of State for Energy and Climate Change to produce a strategy to maximise the economic recovery of UK petroleum from the UK Continental Shelf. The strategy sets out the obligations and actions required, which will be binding on the Oil and Gas Authority (OGA), industry, and other relevant bodies.

Impacts of proposal

As outlined in the IA, the Strategy sets out a central obligation and a number of supporting obligations which are legally binding i.e. relevant persons have a duty to comply. The Infrastructure Act 2015 places a duty on licensees, etc, to comply with the Strategy. The Energy Bill also imposes sanctions for non-compliance with the Strategy. These obligations relate to exploration, development, asset stewardship, use of emerging technology, and decommissioning.

The costs and benefits associated with the Wood Review have not been quantified in this IA. It is the Department's intention to submit a comprehensive 'holistic' impact assessment covering the implementation and scoring of the Wood Review's recommendations as a whole. This will allow all the direct costs and benefits of the package of measures introduced throughout the implementation programme to be assessed and scored against the Business Impact Target (BIT).

The Wood Review IA that accompanied the Infrastructure Act (2015) provided an early monetised assessment of the potential impacts associated with implementing the recommendations of the Wood Review. This set out an indicative assessment

that the expansion in regulatory activity could impose costs on business of £0.2 billion (NPV 2014 prices). This covered the costs of establishing and running the OGA and the costs to the oil and gas sector operators from increased engagement with the regulator.

The IA also sets out benefits of between £21 billion and £56 billion as a result of increasing oil production by 3-4 billion barrels. This large range reflects uncertainty over the level of output, the future oil price and production costs. These estimates will be updated in the 'holistic' IA.

Quality of submission

The Department has provided a discussion of the potential impacts on business of meeting the obligations of the strategy, including the impact of the OGA levy. Overall, the IA appears to provide a reasonable assessment of the likely impacts of the proposal. The proposal will impose costs on business including 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. The RPC notes that the oil price has fallen dramatically since the original Wood Review IA was submitted. The 'holistic' IA must re-examine the costs and benefits of the proposal in the light of this market development.

Other comments

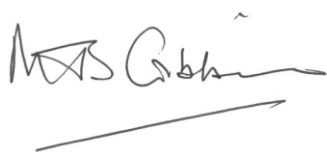
The Small and Micro Business Assessment (SaMBA) is sufficient. The exact number of small and micro businesses involved in the exploration for and production of oil and gas on the UK Continental Shelf is unknown. However, it is expected that such businesses would benefit from access to infrastructure 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. The Department will provide a more detailed SaMBA in the 'holistic' IA'.

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 assessment

Classification	Qualifying regulatory provision
EANCB – RPC validated ¹	To be confirmed in subsequent IA
Small and micro business assessment	Sufficient



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB figures to the nearest £100,000.