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## **Impact assessment of the Transitional National Plan**

### **Department for Environment, Food and Rural Affairs**

#### **RPC rating: - Fit for purpose**

The IA is now fit for purpose as a result of the department's response to the RPC's initial review

#### **Description of proposal**

The Industrial Emissions Directive (IED), which comes into force in January 2016, restricts air pollution emissions from a wide range of industrial processes. Given the scale of the investment required to achieve compliance, the Government now intends to use a derogation that permits Member States to develop a Transitional National Plan (TNP), to allow businesses to reduce emissions more gradually, complying fully with the IED by 2020.

#### **Impacts of proposal**

The Department explains that the proposal will mainly have an impact on the electricity generation market. As a result of the TNP, energy producers will be able to generate more electricity during the transition period than under the do nothing option. In the central case, this will save business £8.1 billion (NPV) net of fuel costs.

Compliance with the TNP will lead to additional costs for some plants, as they will need to invest in abatement technology at an additional cost of £670 million. Businesses will also need to offset higher CO<sub>2</sub> emissions through the EU Emissions Trading Scheme at a cost of around £800 million. In addition, businesses will also incur administration costs of £0.8 million.

Overall, over the appraisal period (2016-2020), the Department estimates that the proposal provides a benefit to business of £1.05 billion each year (EANCB).

The Department explains that this proposal takes up a derogation in EU legislation and, as such, is out of scope of One-In-Two-Out.

#### **Quality of submission**

##### *Issues addressed following RPC's initial review*

As initially submitted, the IA did not make clear whether the cost and benefit analysis, covered, in the IA had already been included in the Industrial Emissions Directive (IED) IA, which the RPC assessed in October 2012. The revised IA now

makes clear that implementation of the TNP was included in the original IED submission.

This IA provides an updated estimate of the benefits of the derogation to accompany the secondary legislation. However, as the TNP was covered in the original IED impact assessment, and the derogation is in line with minimum implementation, this should not be scored as an 'OUT' in the EU account.

Since the IED IA was submitted, the estimated benefits of the derogation have increased substantially. The original evidence was subject to greater uncertainty, due to the challenges associated with forecasting the future plans of plant operators, including whether or not plants would opt for the TNP derogation. Additionally, the UK had yet to finalise the TNP, which had to be submitted to the Commission by December 2012. At the time of the IED IA, the number and type of plants - to be included in the TNP - was, therefore, not known.

Given this uncertainty, the TNP IA would benefit from providing an updated estimate of the cost of the IED to business.

#### *Other issues*

The IA explains that the TNP will also have an impact on other sectors (e.g. chemicals, iron and steel), in addition to the electricity generation industry. At final stage, the IA should explore more fully the potential costs and benefits to these sectors.

The Department should also explore whether there are familiarisation costs to business in deciding whether to opt for the IED (with the TNP) or the separate Limited Life Derogation.

There is considerable uncertainty concerning the size of the costs and benefits and the Department, therefore, provides a very wide range of estimates (page 23). The Department should use the consultation to gather further evidence on the costs and benefits, in order to reduce the level of uncertainty. In particular, in relation to non-monetised impacts such as consumer benefit/surplus, investing in abatement technology and environmental issues (page 2), the Department should seek to monetise these. The Department should also provide more evidence to support its baseline, in particular the assumption that, without the derogation, the affected plants would completely close (page 5).

The proposal is an EU measure, so a SaMBA is not required. The Department has, however, provided an assessment, which shows that the proposals will primarily affect larger businesses.

#### **Initial departmental assessment**

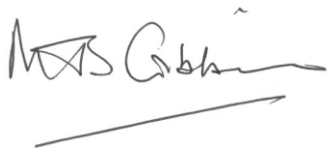
Classification	Out of Scope (EU)
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Equivalent annual net cost to business (EANCB)	-£1,065million
Business net present value	£6,444million
Societal net present value	£5,894million

**RPC assessment**

Classification	Out of Scope (EU)
Equivalent annual net cost to business (EANCB)	£0
Small and micro business assessment	Not required



**Michael Gibbons CBE, Chairman**