

 Regulatory Policy Committee	Opinion	
Impact Assessment (IA)	Motor Fuel Composition and Content Regulations- Extension of Petrol protection grade requirement	
Lead Department/Agency	Department for Transport	
Stage	Final	
IA number	DFT 00225	
Origin	European	
Expected date of implementation (and SNR number)	1 January 2014 (SNR No.7)	
Date submitted to RPC	31/10/2013	
RPC Opinion date and reference	04/12/2013	RPC13-DFT-1831(2)
Overall Assessment	GREEN	
<p>RPC comments</p> <p>The IA is fit for purpose. The IA sets out the costs and benefits of the proposal clearly and addresses the comments made in our Consultation Opinion (30/07/13). The OITO assessment, in scope with a zero net cost, appears to be reasonable.</p>		
<p>Background (extracts from IA)</p> <p>What is the problem under consideration? Why is government intervention necessary?</p> <p>In March 2013 a revised petrol standard (EN228) was introduced which allows retailers to sell petrol containing up to 10% ethanol by volume (E10). An estimated 2.5 million vehicles may not be compatible with E10 (12% of petrol car fleet). Fuel suppliers have indicated they don't plan to introduce E10 on a large scale in the foreseeable future and E5 (containing up to 5% ethanol by volume) is expected to remain widely available. However, as the introduction of E10 is a commercial decision, there is a risk that E5 'protection grade' fuel could disappear from petrol stations forcing owners of incompatible vehicles either to pay for an engine conversion or risk damage to their vehicle. Currently, there is a legislative provision for the supply of 'protection grade' fuel which expires at the end of 2013. This impact assessment looks at extending this provision to until the end of 2016.</p> <p>What are the policy objectives and the intended effects?</p> <p>The policy objective is to mitigate risk of limited availability of an E5 petrol grade should higher blends of ethanol (i.e. E10) be introduced at a larger scale in the immediate future. This would minimise costs for older non-compatible vehicles by saving them conversion costs. By extending the current legal requirement for a protection grade beyond 2013 the Government will limit risks (i.e. damage to incompatible vehicles) and minimise consumer costs (i.e. vehicle conversion costs).</p> <p>What policy options have been considered, including any alternatives to regulation?</p> <p>Option 0 – Do Nothing: Let the existing legislative provision for a petrol protection grade expire at end 2013.</p> <p>Option 1 – Legislative: Amend the Motor Fuel (Composition and Content) Regulations 1999 – requiring the ethanol content of super unleaded petrol sold at larger filling stations</p>		

to be no more than 5% by volume (E5) – in order to extend the end date from 31stDecember 2013 to 31stDecember 2016.

Comments on the robustness of the OITO assessment

The IA states that this is a regulatory proposal which is in scope of OITO but with a zero net cost. The rationale for this proposal being in scope is stated (page 7) as: *“Although the proposed amendment is within the discretion allowed by the EU Directive (i.e. there is no explicit requirement to retain a ‘protection grade’ fuel stream beyond 2013 in the EU Directive), as it goes beyond the minimum requirement, it falls within the One In Two Out scope.”* The rationale for this being zero net cost is stated (page 7) as *“under the central scenario E5 ‘protection grade’ fuel continues to be widely available and the regulation (which requires certain retailers to supply a protection grade) does not bind, therefore no costs would be incurred.”*

This scenario was based upon informal discussions with UK fuel suppliers and was set out in the Consultation Stage IA, which was published during the public consultation. The Final Stage IA includes a section summarising issues raised during the consultation and it appears that this scenario remains valid as the central case. Based on the evidence presented, zero net cost therefore appears to be a reasonable assessment and consistent with the current Better Regulation Framework Manual (paragraph 1.9.12)

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

The proposal is intended to come into force before April 2014 and therefore the SMBA is not applicable. The IA states (page 10) that *“the regulations will apply to all filling stations having sales of petrol and diesel above 3 million litres annually”*. The IA acknowledges that they do not have detailed data on the size of businesses to which the regulations apply and that some filling stations might fall within the definition of micro or small businesses. However, the IA states that in the central estimates there would be no impact on industry and in the high cost scenario, the benefits would outweigh the costs.

Quality of the analysis and evidence presented in the IA

This proposal extends the requirement for E5 grade petrol to be supplied beyond 2013 (to end 2016) to reassure owners with non-E10 grade petrol compatible vehicles. (Newer vehicles are compatible with E10, but a significant number of older vehicles are only compatible with E5.) If E5 became unavailable, some drivers with older vehicles will either have to convert their vehicles to using E10, resulting in additional costs to private and business owners of the vehicles, or risk damage to their vehicle.

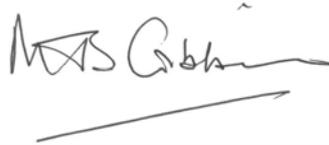
Under the central scenario, the proposal does not bind. Fuel suppliers have indicated that they do not plan to introduce E10 on a large scale in the foreseeable future. E5 therefore remains widely available and the proposal is not expected to have an impact. We note that the consultation provides support for this and this therefore seems justified as the central scenario. However, the purpose of the proposal would seem to be to guard against the (albeit highly unlikely) scenario that it would be commercially advantageous for fuel suppliers to introduce E10 on a large scale during the next three years. The IA should address further what the

lost commercial benefit to fuel suppliers would be under this scenario.

The IA provides a 'high scenario' where the proposal does bind. Under this scenario, the avoided cost of conversion to owners of non-E10 compatible vehicles greatly outweighs any additional costs to fuel suppliers. The IA would benefit from greater clarity as to the extent of this avoided cost being a direct benefit to business, to provide further confidence that this measure would be zero net cost even in the high scenario. (On current estimates, if 1% of the benefits were to business this would mean that benefits to business would exceed costs.)

The Department has addressed the comments made in our Consultation Stage opinion (30/7/13).

Signed

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

Michael Gibbons, Chairman