

 <b>Regulatory Policy Committee</b>	<b>Opinion</b>
<b>Impact Assessment (IA)</b>	Implementation of the Wood Review proposals for UK offshore oil and gas regulation
<b>Lead Department/Agency</b>	Department of Energy and Climate Change
<b>Stage</b>	Final
<b>IA number</b>	DECC0170
<b>Origin</b>	Domestic
<b>Expected date of implementation</b>	October 2014 (SNR 8)
<b>Date submitted to RPC</b>	5 September 2014
<b>RPC Opinion date and reference</b>	7 October 2014   RPC14-DECC-2129(2)
<b><i>Departmental Assessment</i></b>	
<b>One-in, Two-out status</b>	Zero Net Cost
<b>Estimate of the Equivalent Annual Net Cost to Business (EANCB)</b>	N/A
<b>RPC Overall Assessment</b>	<b>GREEN</b>
<p><b>RPC comments</b></p> <p>The IA is fit for purpose. Following the RPC’s previous opinion, the IA now provides estimates of the scale of costs and benefits to businesses that could arise from this primary power. The Department estimates a net benefit to business of between £20.7 billion and £56.3 billion (net present value), primarily as a result of greater oil extraction from the North Sea. The Department needs to establish whether the benefits are direct or indirect by secondary legislation stage. If all these benefits were to be treated as direct, this would result in an equivalent net saving to business of £2.01 billion each year.</p>	
<p><b>Background (extracts from IA)</b></p> <p><b>What is the problem under consideration? Why is government intervention necessary?</b></p> <p><i>“Current resourcing and regulatory powers are inadequate to ensure that private exploration and development will maximise the economic recovery of oil and gas from the UK Continental Shelf (UKCS). The independent ‘Wood Review’ which reported in 2014, made four recommendations to address the issues it identified, the majority of which will require a greater degree of intervention by an independent upstream oil and gas regulator. This will, for example, be to resolve disputes, promote greater collaboration among firms and align their private actions with social objectives for exploiting the nationally-owned resource. The primary legislation lays the necessary groundwork for the Wood Review to be fully implemented in due course.”</i></p> <p><b>What are the policy objectives and the intended effects?</b></p>	

*“The objective is to Maximise the Economic Recovery (MER) of oil and gas on the UKCS by increasing the effectiveness of sectoral regulation. The Wood Review (the Review) made four recommendations to achieve this objective. The regulatory functions should in due course be transferred to a body that is independent of Government and that can fund increased regulatory activity by charging for its services. The Government intends to implement all of the Review’s recommendations, but full implementation will require multiple stages of legislation and policy development in order to fully incorporate stakeholder views and avoid unintended consequences. A phased approach will therefore be adopted. Phase 1 requires primary legislation to establish the framework for MER UK Principles and to create the power for the Secretary of State to raise a levy to fund the activities of the new Regulator which cannot currently be charged for. Phase 2 will require primary and secondary legislation to establish wider powers, an enforcement regime, setting the level of the levy itself, developing a detailed strategy for how the MER UK Principles will be implemented, and the creation and establishment of an arm’s length regulator.*

*This Impact Assessment accompanies the Phase 1 proposals – the powers to charge a levy and the establishment of the MER UK Principles in statute. Without further secondary legislation these will not have a direct impact on business. This IA does however provide an estimate of the potential costs and benefits associated with the implementation of all the Review’s recommendations. The analysis will be refined with input from industry and the new Regulator during Phase 2 of policy development and primary and secondary legislation and presented in a further IA.”*

### **Comments on the robustness of the OITO assessment**

In line with Committee’s previous opinion of 4 July 2014, the impact assessment now provides indicative estimates of the potential full costs and benefits. By implementing the recommendations of the Wood Review, this proposal aims to facilitate the production of an additional 3-4 billion barrels of oil equivalent over the next 20 years. As such, the profit deriving from the sale of this oil represents a very large potential benefit to business. Costs from the proposal are relatively small and are confined to the costs of funding and engaging with a new regulator (around £200 million NPV, 2014 prices). Under the central scenario the net benefit to business is £40.6 billion (NPV). The Department needs to establish whether the benefits are direct or indirect by secondary legislation stage. If all these benefits were to be treated as direct, this would result in an equivalent net saving to business of £2.01 billion each year.

However, there is considerable uncertainty concerning the underlying assumptions, including the actual level of increased production that will be possible, the production costs and the future price of oil. As such, the impact assessment presents a range for the net benefit to business around the central scenario of between £20.7 billion and £56.3 billion (net present value).

The Department says that this is a regulatory proposal that is net beneficial to business (an ‘IN’ with ‘Zero Net Cost’). This is consistent with the current Better Regulation Framework Manual (paragraph 1.9.12) and, based on the evidence presented so far, appears to provide a reasonable assessment of the likely impacts of the secondary legislation. However, there is considerable uncertainty

surrounding a number of the assumptions. As such, the Department will need to refine the figures at secondary legislation stage for scoring in the OITO account. In particular, the Department should re-examine the assumptions concerning production costs of potential new oil and gas fields, since the IA highlights “*the marginal nature of those fields*”.

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

The proposal increases the scope of regulation on business. Therefore a SaMBA is required.

The IA explains that the exact number of small and micro businesses in the exploration or production of the UK Continental Shelf (UKCS) is unknown, but recognises that companies of this size do operate within the sector. The IA acknowledges that more robust assessment will need to be provided in IAs accompanying secondary legislation. This appears to be reasonable at this stage.

### **Quality of the analysis and evidence presented in the IA**

The proposal is to implement all of the recommendations of the Wood review for UK offshore oil and gas regulation at this stage by way of primary legislation:

- a. Government and industry to develop and commit to a new strategy for maximising economic recovery from the UK Continental Shelf (UKCS).
- b. Create a new arm’s length body charged with effective stewardship and regulation of UKCS hydrocarbon recovery, and maximising collaboration in exploration, development and production across the industry.
- c. The regulator should take additional powers to facilitate implementation of the strategy.
- d. Develop and implement important sector strategies to underpin the overall strategy.

The Department has addressed the issues raised in the Committee’s opinion of 4 July 2014. As this is a primary power IA, it has provided an indication of the total expected impact of the measure. The IA explains that there are no immediate monetised costs to business associated with this stage of the implementation. This appears reasonable.

**Signed**



**Michael Gibbons, Chairman**