 <b>Regulatory Policy Committee</b>	<b>Opinion</b>	
<b>Impact Assessment (IA)</b>	Implementation of Directive 2013/30/EU on the safety of oil and gas operations and on updating UK oil and gas legislation	
<b>Lead Department/Agency</b>	Health and Safety Executive	
<b>Stage</b>	Final	
<b>IA number</b>	Not provided	
<b>Origin</b>	European	
<b>Expected date of implementation</b>	April 2015 (SNR 9)	
<b>Date submitted to RPC</b>	12 December 2014	
<b>RPC Opinion date and reference</b>	27 January 2015	RPC14-HSE-2078(2)
<b>Departmental Assessment</b>		
<b>One-in, Two-out status</b>	Out of scope (EU)	
<b>Estimate of the Equivalent Annual Net Cost to Business (EANCB)</b>	£17.09 million	
<b>RPC Overall Assessment</b>	<b>GREEN</b>	
<b>RPC comments</b>		
<p>The IA is fit for purpose. The agency has provided a comprehensive assessment of the impacts of the policy and its estimates appear to have been strengthened further as a result of the consultation. The agency's estimate of the equivalent annual net cost to business of £17.09 million appears to be a reasonable figure. This is out of scope of One-in, Two-out because it relates, for the most part, to the minimum implementation of EU requirements.</p>		
<b>Background (extracts from IA)</b>		
<b>What is the problem under consideration? Why is government intervention necessary?</b>		
<p><i>"In 2011, the EC published proposals for a direct-acting European Regulation to strengthen the EU Offshore oil and gas regulatory system. The UK argued strongly for a Directive, to enable it to build the new requirements into its existing world-class regime. This was successful, and the Directive, which must be implemented by 19<sup>th</sup> July 2015, contains requirements relating to licensing, environmental protection and oil spill response, and liability in addition to safety matters, and therefore requires a coordinated implementation approach between the relevant Government departments. Intervention is necessary to establish an offshore competent authority (CA), to amend existing legislation or implement new provisions and to introduce administrative measures to fully transpose the Directive within the stated time-frame. Offshore oil and gas legislation needs to be updated to simplify definitions, fill gaps, reduce the stock of regulations and to bring emerging energy technologies within the scope of the legislation".</i></p>		
<b>What are the policy objectives and the intended effects?</b>		

*“The UK Policy objectives are:*

*(1) To fully transpose the Directive by: Building on the UK’s exemplary offshore safety and environmental regimes and further enhancing it; maintaining the existing high levels of protection for worker’s safety and the environment; and keeping burdens on industry to a minimum.*

*(2) To simplify and update oil and gas major hazard legislation to take account of operational lessons learned and maintains industry/public confidence in the regulation of emerging energy technologies”.*

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

The agency assesses the policy proposal to be out of scope of OITO. This is on the basis that nearly all the policy package meets the minimum requirements of the Offshore Safety Directive and, where measures go further than this, it is only to maintain existing standards. The policy package is, therefore, out of scope of ‘One-in, Two-out’, in accordance with the Better Regulation Framework Manual (paragraph 1.9.8ii, for the EU requirements, and , in respect of maintaining existing standards that go beyond EU requirements, in line with previous interpretations of OITO guidance).

The agency’s estimate of the EANCB to meet the EU requirements, £17.09 million, appears to be reasonable. This is discussed further in the final section of this opinion.

The agency has provided an assessment of the three areas where the policy goes beyond the minimum EU requirements (pages 86-88). In two areas, definitions relating to major accidents and supplementary units connected to an offshore installation, the cost of the gold plating is zero or minimal. With major accidents, this is mainly because employers would in any case have to comply with other health and safety legislation (for example, the Health and Safety at Work Act 1974). With supplementary units, there are currently no employers affected by the wider definition. In both cases, therefore, reducing the scope of the proposal to the minimum in the Directive would not lead to any savings to business. In the third area, relating to enter or leave notifications for non-production installations, the agency has estimated the cost of the gold plating to be about £0.07 million over ten years, in present value terms.

The Committee welcomes the agency’s assessment of the potential savings from lowering standards to the EU minimum in these areas. The rationale for retaining the existing standards and the assessment of the savings foregone appear to be reasonable.

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

Nearly all of the measures in the policy package derive from EU requirements and, therefore, a SaMBA is not required for these. The agency states that there is one measure not derived from an EU directive, for new domestic requirements that

relate to combustible gas storage and recovery. The IA, therefore, includes a SaMBA (pages 110-111). This notes that there are one or two operators involved in this sector who may have fewer than 10 employees. The IA explains why it would not be appropriate to exempt these companies, on the basis of major hazard risk, and notes that these businesses are in any case already complying with the standards. The SaMBA is sufficient.

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

The proposal is to transpose the Offshore Safety Directive to strengthen the oil and gas regulatory system while maintaining existing levels of safety and environmental protection. The UK will need to establish a competent authority to oversee the required changes in order to implement the Directive. Businesses face two main costs: paying for the CA and complying with the regulations.

The IA gives a detailed description and analysis of a complex set of measures. The department appears to have made good use of the consultation and revised the estimates in its IA accordingly. The Net Present Value (NPV) of the proposal over ten years is now a cost of £196 million, a significant change from the consultation stage IA (a cost of 143 million). This difference is mainly accounted for by a substantial increase in the cost category 'complying with changes to HSE legislation'. The cost here has increased from £107m to £150m, in present value terms. The additional cost comes from three areas, where the consultation provided new information:

- a) *Internal Emergency Response Plans*. The proportion of installations that will incur costs to keep these plans up to date is now assumed to be 100 per cent, rather than the previously assumed 50 per cent. As a result, the cost has doubled to £24.4m (paragraph 363, page 74).
- b) *Independent Verification*. The cost per installation has been increased to £30,000. As a result, the overall cost has increased to £24.2 million (paragraph 368, page 76), compared to £13.4m at consultation.
- c) *Well Notifications*. This now includes additional costs of £16.8m and £5.2m that "*addresses a gap in the analysis*" (paragraph 412, page 81). The overall cost has increased to £32.4m, compared to £10.5m at consultation.

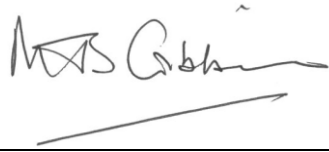
There are also smaller increases in cost in other areas, notably 'competent authority assessments related to DECC licensing legislation' (£3.4m) and 'costs of complying with DECC licensing legislation' (£5.4m).

All of these changes are reflected in the (out of scope) EANCB, which has increased from £12.67m to £17.09m. As explained above, the new estimate uses information from the consultation and appears to be a robust figure.

The IA has addressed the comments in the Committee's consultation stage opinion, dated 27 May 2014. In particular, the IA now provides a detailed assessment relating to Article 38 of the Environment Liability Directive (pages 99-103). The department could, however, have provided further discussion (to that at pages 105-107) of the extent of health and safety benefits resulting from the

proposal. This would provide a clearer assessment of whether the proposals are likely to be net beneficial or costly to society.

**Signed**

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

**Michael Gibbons, Chairman**