Title: Funding the Oil and Gas Authority (OGA): Levy. **IA No:** DECC0194 **Lead department or agency:** Department of Energy and Climate Change (DECC) **Other departments or agencies:** The Oil and Gas Authority (OGA)	**Impact Assessment (IA)** **Date:** 14 August 2015 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** **Anthony.Moulds@decc.gsi.gov.uk**

Summary: Intervention and Options

Not applicable

Cost of Preferred Option				
Total Net Present Value	**Business Net Present Value** (2015 prices)	**Net cost to business per year** (EANCB in 2009 prices)	**In scope of One-In, Two-Out?**	**Measure qualifies as**
-£13.2m	-£10.1m	£7.5m (cost)	No	Tax and spend

What is the problem under consideration? Why is government intervention necessary?

The Government is committed to establishing a strong, effective regulator – the Oil and Gas Authority (OGA) – which became an Executive Agency on 1 April 2015 and will transition to a Government Company in summer 2016, subject to Parliamentary approval for the Energy Bill. The Government agrees with the recommendation in the Wood Review that delivering the objective of maximising the economic recovery of offshore UK petroleum (MER UK) requires the OGA to be better resourced than the equivalent team in DECC used to be.

The creation of an additional cost-recovery mechanism is therefore necessary to fund fully the OGA as it is appropriate for the body to recover its costs from companies who will benefit from the services of the Regulator. A levy is considered the fairest, simplest and most sustainable method of achieving this aim. The OGA must ensure that the levy design is compliant with Managing Public Money[1] guidelines in that charges on market participants should be reflective of the costs they impose on the Regulator. A power to raise such a levy was included in the Infrastructure Bill, which received Royal Assent in February 2015 (Infrastructure Act 2015). Secondary legislation is required in order to implement the levy.

What are the policy objectives and the intended effects?

The objective is to implement a levy to ensure that the OGA is both adequately funded and that it recovers its costs from companies who will benefit from the services of the Regulator. The intended effect is to enable the OGA to fulfil its remit of being a strong, effective steward and regulator, using its powers as a last resort for the good of the UK.

What policy options have been considered, including any alternatives to regulation?

Two options were considered:

Option 0: The 'do nothing' option is a continuation of current arrangements where around 20% of baseline regulatory costs are recovered through the existing charging regime and all others are met by general taxation. This option was ruled out as it would not have met the policy objectives.

Option 1: Introduce a cost-recovery mechanism in the form of a levy to ensure that the OGA is fully funded by the companies that benefit from its services. The levy would be allocated on a cost-reflective basis whereby the total annual levy is divided between pre-production and in-production license holders based on the level of regulatory services undertaken annually on behalf of each group – estimated at 11% and 89% respectively for current activity – and then divided equally amongst the number of license holders in each group. This is the preferred option as it is consistent with MPM principles in that charges will reflect costs imposed on the OGA.

[1] HM Treasury (2013) Managing Public Money 2013 [web], available at: https://www.gov.uk/government/publications/managing-public-money.

Will the policy be reviewed? It will be reviewed. **Review date:** Annual review of charging level.						
Does implementation go beyond minimum EU requirements?			**N/A**			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro:** **Yes**	**< 20:** **Yes**	**Small:** **Yes**		**Medium:** **Yes**	**Large:** **Yes**
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			**Traded:** **n/a**	**Non-traded:** **n/a**		

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Andrea Leadsom Date: 8th September 2015

Summary: Analysis & Evidence Policy Option 1

Description: Establish a levy to recover OGA costs from oil and gas licence holders. Allocate total costs between pre-production and in-production licence holders and then divide costs equally amongt the number of license holders in each group.

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2015	Time Period Years 1	Net Benefit (Present Value (PV)) (£m)		
			Low: n/a	High: n/a	Best Estimate: -£13.2m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	n/a	n/a	-	n/a
High	n/a		-	n/a
Best Estimate	**n/a**		**-**	**£13.2m**

Description and scale of key monetised costs by 'main affected groups'

The estimates reflect the additional costs to government and business associated with the set-up and operation of the OGA in FY2015/16 only. There is uncertainty around costs beyond FY2015/16 at this stage as they will vary annually in line with activity levels on the UKCS, the corresponding volume of work undertaken by the Regulator and amendments to the existing direct fee charging scheme. Consequently no projections have been included for future years. Of the incremental societal level costs of £13.2 million in 2015/16, the total levy on business in is calculated at £10.1 million. Internal analysis has been undertaken to map activities to pre-production and in-production licences; this will continue to be monitored by the OGA on an annual basis and updated as necessary.

Other key non-monetised costs by 'main affected groups'

Costs continue to be incurred by Government in developing the necessary secondary legislation and strategic documents related to the creation of the OGA as a Government Company and establishing the levy. The costs will be absorbed within existing resources rather than being passed through to business and consequently have not been monetised.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-		-	-
High	-		-	-
Best Estimate	**Nil**		**Nil**	**Nil**

Description and scale of key monetised benefits by 'main affected groups'

There are no monetised benefits directly associated with the introduction of a levy to recover the costs of establishing and operating the OGA. The Wood Review presented estimates of the potential benefits that could accrue as a result of implementing MER UK, which were expanded upon in a previous Impact Assessment. The estimated benefits comprised of net additional revenues from a combination of increased oil and gas production and lower production costs on the UKCS.

Other key non-monetised benefits by 'main affected groups'

Full implementation of the Review's recommendations is expected to result in wider economic and financial benefits. Such benefits include increased capacity, capability and skills in the oil and gas sector including the wider supply chain, increased innovation and enhanced security of supply. The Impact Assessment for the Wood Review, published in Autumn 2014[2], estimated the potential net benefit to business associated with the implementation of all the Reviews recommendations of between £20.8 billion and £56.3 billion (net present value), primarily as a result of greater oil extraction from the North Sea. The intention is to present a holistic, updated assessment of all impacts in a subsequent IA which will accompany the MER UK Strategy and secondary legislation.

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/370077/Implementation_of_the_Wood_Review_proposals_for_UK_offshore_oil_and_gas_regulation_-_IA.pdf

Key assumptions/sensitivities/risks	3.5
• The NPV base year is 2015 and all values are expressed in 2015 prices. • OGA costs and the calculated levy are for FY2015/16 only. The figures are consistent with the Government Response and the OGA Levy: Supporting Information 2015/16 documents. • There is uncertainty around costs beyond FY2015/16 at this stage as they will vary annually in line with activity levels on the UKCS, the corresponding volume of work undertaken by the Regulator and amendments to the existing direct fee charging scheme. Consequently no projections have been included for future years.	

BUSINESS ASSESSMENT (Option 1) (2009 Prices, 2010 NPV base year)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: £7.5m	**Benefits:** Zero	**Net**:-£7.5m	No	Tax and spend

Evidence Base

1. Problem under consideration

1. In June 2013, the Secretary of State for Energy and Climate Change asked Sir Ian Wood to conduct an independent review of UK Continental Shelf (UKCS) oil and gas recovery, specifically looking at how economic recovery could be maximised. The Government accepted, and is committed to implementing the Review's recommendations.

2. The Government is committed to establishing the new Oil and Gas Authority (OGA) which is already engaging with industry to drive down costs and improve efficiencies and to maximise economic recovery of our offshore oil and gas reserves, both for Britain's energy security as well as our long-term economic outlook.

3. The OGA became an Executive Agency on 1 April 2015 and will transition to a Government Company in summer 2016, subject to Parliamentary approval for the Energy Bill. The new Energy Bill, which was introduced into the House of Lords on 9 July 2015, will vest the OGA as a Government Company and equip the body with additional powers to fully realise the benefits of economic reserves of oil and gas from UK waters.

4. The Government carried out a consultation on the design of a levy between 23 March and 20 April 2015. A consultation document[3] and Impact Assessment[4] (IA) outlined options in respect of a mechanism by which a levy will be initially apportioned across petroleum licence holders in order to fund the OGA. The document also sought views on the proposed collection mechanism and other details of the methodology.

5. The Infrastructure Act 2015[5] provides that Regulations setting the levy cost are subject to the 'negative' Parliamentary procedure, which means that the Regulations need to be laid in Parliament for a period of no less than 21 days without any objections raised. The intention is that the Regulations will come into effect on 1 October 2015. This will allow for funding the OGA between 1 October 2015 and 31 March 2016.

6. This IA updates the estimated levy cost for financial year 2015/16 that was presented in the consultation stage IA. Due to uncertainty at this stage around the annual levy from 2016/17 onwards, no projections are included for future years. Ahead of 2016/2017, a new set of Regulations will be brought forward with an amended levy rate taking into account the whole financial year. The OGA will share its business plans with industry to ensure transparency and will consult DECC and HM Treasury to ensure its budget has been sufficiently scrutinised to deliver maximum value for money.

[3] DECC, (2015), Funding the Oil and Gas Authority: Consultation on Levy Design. [web], available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/415693/Levy_con-doc.pdf

[4] DECC, (2015), Funding the Oil and Gas Authority (OGA): Levy design. [web], available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/417638/OGA_Levy_Impact_Assessment_-_Final.pdf

[5] http://www.legislation.gov.uk/ukpga/2015/7/contents/enacted

2. Rationale for intervention

7. The challenge of delivering the objective of maximising the economic recovery of offshore petroleum (MER UK) requires the OGA to be significantly better resourced than the equivalent DECC team used to be. In line with the established practice across regulation and service delivery, it is appropriate for the OGA to recover its costs from companies who will benefit from the services of the regulator, in line with the principle of 'user pays'.

8. The proposed approach is in line with the long-established practice and Government policy - as set out in "Managing Public Money"[6] - that Government recovers the costs of the services it provides, where this is possible. In particular it states that:

   "This [cost recovery] can be a rational way to allocate resources because it signals to consumers that public services have real economic costs. Charging can thus help prevent waste through badly targeted consumption. It can also make comparisons with private sector services easier, promote competition, develop markets and generally promote financially sound behaviour in the public sector."

9. Currently around £965,000 of the costs incurred in undertaking regulatory activities are recovered annually through fees charged for delivery of specific services to individual companies. The Gas and Petroleum (Consents) Charges Regulations 2013 (SI 2013/1138) allow for charging for the Secretary of State's energy functions, such as consent for a field development plan and for an application for a pipeline works authorisation.

10. An additional cost recovery mechanism will be required to fund the remainder of the costs of the OGA, and a levy will provide the fairest and simplest method of achieving this aim. In the short term, the Government has also committed to contributing £3 million per annum for a period of five years starting in 2016/2017 to ensure the OGA is well-funded from the outset and to demonstrate the commitment to the tripartite approach to delivering MER UK.

Costs to be recovered under levy

11. As outlined in paragraph 9, companies are already charged for some regulatory services provided in relation to licences, including consents. Current charges covered include a wide scope of services, including an application for consent to a Field Development Plan (FDP), an application for consent to a carbon dioxide storage proposal, an application for a pipeline works authorisation and consents to drilling operations. These charges of around £965,000 per annum recovered around 20% of the costs previously incurred by DECC in undertaking regulatory activities.

12. The existing charging regime will remain in place but will be updated to reflect the costs the OGA incurs for providing those services. In addition, following a review of the services the OGA will undertake, and in accordance with the principles of Managing Public Money (MPM), Government considers it is appropriate to recover the costs of several additional services via direct charges (rather than through a levy). These include metering inspections (including flow calibrations), licence extensions and amendments, area retention plans, cessation of production, determination and re-determination of fields, data storage and applications for the right to use a pipeline.

13. However, before these changes can be made, Government will first need to amend the provisions in Section 188 of the Energy Act 2004, and intends to do so in the recently introduced Energy Bill. Therefore, until this time, the costs will initially be recovered under the levy. The schedule of activities

[6] HM Treasury (2013) Managing Public Money 2013 [web], available at: https://www.gov.uk/government/publications/managing-public-money.

that the OGA will charge for directly, as opposed to fund via the levy, will be kept under review, so that the OGA's charging regime remains as costs reflective to its customers as possible.

14. Other costs, not currently recovered by DECC, encompass activity required to underpin those services (such as licencing policy, and work to prepare future licence rounds), and activities that benefit, to greater or lesser degree, all licence holders. DECC also does not recover the costs of activity to support the supply chain, research and development work (for example on innovative techniques for extraction of hydrocarbons) and costs related to collection and dissemination of data (for example surveys in relation to geological work). The OGA will also incur costs in the course of developing the MER UK strategy and implementing the Sector Strategies to maximise recovery of hydrocarbons from the UKCS.

15. As set out in the Call for Evidence[7], it is the Government's intention to recover all of these costs from petroleum licence holders via the levy. Table 1 below lists the activities the OGA will perform and which mechanism (levy or direct charges) the costs will be recovered through.

Table 1: Additional regulatory activities and cost-recovery mechanism

Activities currently charged for	Activities to be recovered by levy	Additional Activities proposed to be charged for directly (but in the short term recovered via the levy)
Approval of an onshore or offshore Field Development Plan (FDP) - including approval to revisions and addenda.	Developing UKCS Strategy (PILOT / MER UK)	Inspecting metering systems on offshore platforms and onshore production sites (Including flow calibrations)
Approval of an offshore Gas Storage Development Plan including approval to revisions and addenda.	Responding to non-licence related / public correspondence and FOI requests	Licence extensions and amendments
Approval of an offshore carbon dioxide Storage Permit including approval revisions and addenda.	Data: Production returns & projections	Approval of Retention Area Plans (onshore)
Pipeline Works Authorisations and variations thereto.	Operational Licensing Policy	Cessation of production
Pipeline deposit consents.	The Field Teams (Non FDP approval work)	Applications for the right to use a pipeline
Consent to drilling operations To drill a new well To drill a sidetrack To complete (perforate) a well To suspend a well To re-enter a well To abandon a well	Exploration Team (e.g. Fallow Work)	Data storage
Consent to Licence Changes Change of licensee Change of the beneficiary of a petroleum field or subarea Change of the operator of a petroleum field or subarea	Upstream Emergency Planning	Determination and or redetermination of a field
Production/Flaring /Vent consents.	Upstream Petroleum Infrastructure Third party access dispute resolution procedures and sanction processes	

[7] Implementing the Wood Review Recommendations: Call for Evidence.
https://www.gov.uk/government/consultations/implementing-the-wood-review-recommendations

Methodology proposed for the measurement of petroleum (PON6 approval)	Metering inspections, licence extensions, approval of area retention plans (in the short term)	
Extended Well Tests	Other (including Oil Price and special commissions)	

3. Policy objective

16. The challenge of delivering MER UK requires the OGA to be significantly better resourced than the current equivalent team in DECC. The policy objective is therefore to implement a levy to ensure that the OGA is both adequately funded and that it recovers its costs from companies who will benefit from the services of the Regulator. The intended effect is to enable the OGA to fulfil its remit of being a strong, effective steward and regulator, using its influence as a last resort for the good of the UK.

17. The levy design must comply with Managing Public Money guidelines, whereby the charges recovered from particular groups of payees reflect the costs which they trigger in relation to activities undertaken for their benefit by the Regulator.

4. Description of options considered

18. The consultation stage IA presented five policy options with regard to the design of the levy i.e. the allocation methodology for apportioning costs amongst the market participants benefiting from regulatory activities. The total sum to be recovered from industry in 2015/16 (and subsequent years) would be of equal value under different levy design options, but the distribution of the costs among particular companies or groups of companies would vary.

19. A 'Do Nothing' option (Option 0) was ruled out on the basis that it would not achieve the policy objectives. This approach would have constituted a continuation of current arrangements where around £965,000 per annum of regulatory costs are recovered through the existing regime of charges for services, and all other costs are paid through general taxpayer contributions / government funding. Delivering the overarching objective of MER UK requires the OGA to be significantly better resourced than the current regulatory function.

20. The Government published a Call for Evidence in November 2014[8]. Industry feedback to that exercise called for the levy design to be simple to administer, transparent and cost-reflective. The Government agrees with these suggestions, and also that the levy should be predictable and stable to aid planning for industry and the OGA.

21. However, in common with other organisations delivering public services in the UK, the OGA needs to comply with the principles of Managing Public Money (MPM). These principles set out demanding standards expected of public services and include: transparency, accountability, accuracy and fairness.

22. Schedule 7 to the Infrastructure Act 2015 illustrates how the levy power may be used. As with fees and charges, levies should be designed to recover full costs. However, to ensure the levy is cost-

[8] Implementing the Wood Review Recommendations: Call for Evidence.
https://www.gov.uk/government/consultations/implementing-the-wood-review-recommendations

reflective of the work carried out on behalf of licence holders, it may be appropriate to charge different levy rates to different kinds of licensees.

Option 1 – Allocate levy based on costs incurred as a result of activities undertaken for pre-production and in-production license holders; then divide the costs equally between the number of licence holders in each group (preferred option).

23. The Government consultation document[9] and Impact Assessment[10] outlined options in respect of a mechanism by which the levy will be initially apportioned across petroleum licence holders. The document also sought out views on the proposed collection mechanism and other details of the methodology. The Government intends to implement the preferred option (Option 1a in the consultation stage IA), on which it consulted, that is, to allocate the annual levy based on costs incurred as a result of activities undertaken for pre-production and in-production licensees and subsequently to divide the costs equally between the number of licences in each group. This will ensure, so far as practicable, that the costs to industry licence holders fall to those that impose the costs on the OGA i.e. cost-reflective charging.

24. As part of an assessment process, the future costs of the OGA were estimated and mapped across licence holders. This assessment used estimations of the costs the OGA would incur in carrying out activities to be funded by the industry, and the split of how much of this work would be carried out on behalf of the two different groups of licence holder based on internal analysis. For the purposes of the analysis, all types of licence were considered – Promote, Traditional, Frontier and Exploration. Cost mapping was undertaken on UKCS and developing sector strategies, upstream emerging planning, third party access dispute resolution procedures, exploration, operational licensing, metering inspections, production returns and projections, etc.

25. In the levy consultation we proposed that exploration licence holders and production licence holders in their initial and second term would be grouped as non-producing licences as exploration licensees by definition do not have the right to produce hydrocarbons while no production is usually taking place in the initial and second terms (exploration and development/appraisal phase) of the production licence. Production licence holders in their third term would be classified as in-production as production usually takes place in the third term.

26. However, after closer examination of all licences and the terms the licences were in, we discovered that there were a number of production licences in their first and second term already producing and a number in of production licences in their third term not producing (for example, a discovery was not made).

27. To simplify the methodology and to prevent an incorrect apportioning of the levy across licence holders, we propose to use a simple determinant in allocating the levy rate: production, regardless of the term the production licence holder is in.

28. Our final analysis demonstrated that 11% of the OGA's costs should fall on pre-production, and 89% on in-production licences.

29. The Government also recognises that, as the OGA matures, this apportionment of costs will be subject to change. Therefore, the costs of the OGA and their allocation will be monitored on an ongoing basis and will be subject to review at least on a financial year basis.

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[9] DECC, (2015), Funding the Oil and Gas Authority: Consultation on Levy Design. [web], available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/415693/Levy_con-doc.pdf

[10] DECC, (2015), Funding the Oil and Gas Authority (OGA): Levy design. [web], available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/417638/OGA_Levy_Impact_Assessment_-_Final.pdf

30. The allocation methodology is designed to deliver an outcome which minimises unintentional cross subsidisation between classes of licence holders and provides an approach that is transparent, cost-reflective and administratively simple for the OGA and industry. It will also help with predictability of the OGA's cash flow as the levy rate is unrelated to variables such as acreage and production. Unlike acreage, it is also an approach that could easily be replicated to carbon dioxide storage and gas storage licences should the levy be imposed on holders of those licences in future.

5. Monetised and non-monetised costs and benefits

31. The levy will initially be targeted only at offshore petroleum licence holders. This is compliant with MPM principles, whereby the charges recovered from particular groups of payees reflect the costs which they trigger in relation to activities undertaken for their benefit by the OGA.

32. Holders of unloading and storage of gas and carbon dioxide licences will, in the short term, be exempt from paying the levy as it is not envisaged the OGA will incur costs for those categories of licence that cannot be recovered via direct charges. Similarly, it is envisaged that the OGA will recover all of its costs in relation to onshore licences via direct charges for services and therefore onshore licensees will also be exempt from paying the levy.

33. However, as the OGA's role develops, it may undertake work that should be funded under the levy by these other categories of licence holder. Any need to extend the scope of the levy would be signalled through the OGA's annual business planning process and the OGA will communicate its intentions to affected groups.

34. All licence holders will continue to pay direct fees for costs associated with issuing permits and consents via the extant fees and charges regime, which will be extended to include the relevant activities outlined in Table 1 above.

COSTS

Baseline costs

35. For the purposes of this analysis, the counterfactual for estimating the net additional costs of establishing the OGA is assumed to be the continuation of the arrangements in place prior to publication of the Wood Review i.e. the same level of regulatory activity would continue to be administered as it was previously within DECC. As reported in Table 2, the total baseline resource cost of that activity in 2014 was around £5.7 million, comprised of costs to Government of around £4.7 million and additional costs recovered from industry via the existing fees and charges scheme of £965,000 (2015 prices).

Table 2: Baseline costs of regulatory activity, £k, 2015 prices

	Baseline Costs
Costs to Government	£4,745
Costs recovered via fees and charges	£965
Total resource cost	**£5,710**

Proposed Levy (costs to business)

36. As set out in the *Government Response* and the *OGA Levy: Supporting Information 2015/16* documents and summarised in Table 3 below, the proposed levy (additional costs to business) is calculated at around £10.1 million for the period 1 October 2015 to 31 March 2016. This reflects total forecast OGA costs of around £18.9 million for 2015/16, minus government funding of around £7.8 million plus income from existing fees and charges of £965,000.

Table 3: OGA costs and proposed levy 2015/16, £k, 2015 prices

	2015/16
OGA costs	**£18,885**
Funding; of which*	**£8,801**
DECC & HMT	*£7,836*
Fees and charges (recovered from industry)	*£965*
Residual levy requirements	£10,084

Allocation of Levy

Option 1 (preferred option) – Allocate levy based on costs incurred as a result of activities undertaken for pre-production and in-production licensees and divide the costs equally between the number of licences in each group.

37. Based on the approach set out in paragraphs 23-24 above, the internal mapping exercise demonstrated that 89% of the OGA's costs are incurred in relation to in-production license holders i.e. license holders with an approved Field and development Plan. The remaining 11% are incurred with regards to pre-production licenses i.e. exploration licences and production licence holders without an approved FDP in place. Based on these calculations and the estimated levy between 1 October 2015 and 31 March 2016 of £10.1 million, the projected levy rates for licence holders are set out in Table 4 below. This shows that the levy rates in 2015/16 for pre-production and in-production licenses would be around £2,700 and £30,400 respectively.

Table 4: Proposed levy by licence type in 2015/16, £k, 2015 prices.

Total levy (£k)	£10,084
Pre-production share	11%
In-production share	89%
Total levy pre-production (£k)	£1,109
Total levy in-production (£k)	£8,975
Pre-production licences	402
In-production licences	295
Cost per pre-production licence (£k)	£2.7
Cost per in-production licence (£k)	£30.4

38. These levy rates will recover the operational costs of the OGA and will ensure the body has sufficient funds to deliver its remit of maximising economic recovery and to be an effective regulator and steward of the UKCS. The levy rates have been agreed by DECC and HM Treasury and are based

on the assumption that 100% of the OGA's costs are funded by Industry, excluding the fee income for direct service provisions.

39. The OGA will issue invoices in early October with a requirement of settling the invoices within 30 days to ensure the body is well funded from the outset and can carry out its role in full.

40. The OGA will monitor its spending and income and will prudently approach the following year's expenditure and costs to ensure the levy rate is reflective of its costs. Ahead of the financial year 2016/2017, a new set of regulations will be brought forward. The OGA will share its business plans with industry to ensure transparency and will consult DECC and HM Treasury to ensure its budget has been sufficiently scrutinised to deliver maximum value for money.

Societal Costs

41. As reported in Table 5 below, the additional resource cost (societal level) associated with establishing and operating the OGA in 2015/16 is around £13.2 million. This incremental cost reflects the difference between total OGA costs and the baseline costs as reported in Table 2 above.

Table 5: Estimated net societal costs, £k, 2015 prices.

	Low
OGA costs	£18,885
Minus baseline costs	£5,710
Net resource cost	**£13,175**

BENEFITS

42. There are no monetised benefits directly associated with the introduction of a levy to recover the costs of establishing and operating the OGA. However, the creation of the levy will ensure that the OGA is both adequately funded and that it recovers its costs from companies who will benefit from the services of the Regulator. This will enable the OGA to fulfil its remit of being a strong, effective steward and regulator, using its influence as a last resort for the good of the UK.

43. Measures contained within the Infrastructure Act 2015 were subject to a separate IA, published in November 2014[11]. That IA also presented preliminary estimates of the potential impacts (costs and benefits) associated with the implementation of all the Review's recommendations and a commitment to refine the analysis in line with further policy development and secondary stages of legislation. In summary and by building upon the findings of the Review, the analysis suggested that full implementation could result in significant benefits (c. £21-£56bn, NPV, 2014 prices) as a result of increased oil and gas extraction from the UKCS over the next 20 years (relative to Departmental production forecasts). This previous assessment of benefits has not been updated as part of this IA, but the importance of doing so as part of the implementation and assessment programme is fully recognised, particularly in light of recent falls in oil and gas prices and the resulting impact on production forecasts. The intention is to present a holistic assessment of all impacts in a subsequent IA which will accompany the MER UK Strategy and secondary legislation. This will also ensure that the full costs and benefits to business and society as a whole arising from Wood Review Implementation are quantified on a consistent basis, including EANCB estimates and scored for One-In-Two-Out (OITO) purposes.

[11]DECC, (2014), Implementation of the Wood Review proposals for UK offshore oil and gas regulation [web], available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/370077/Implementation_of_the_Wood_Review_proposals_for_UK_offshore_oil_and_gas_regulation_-_IA.pdf

Assumptions

- The NPV base year is 2015 and all values are expressed in 2015 prices.

- OGA costs and the calculated levy are for FY2015/16 only. The figures are consistent with the Government Response and the OGA Levy: Supporting Information 2015/16 documents.

- There is uncertainty around costs beyond FY2015/16 at this stage as they will vary annually in line with activity levels on the UKCS, the corresponding volume of work undertaken by the Regulator and amendments to the existing direct fee charging scheme. Consequently no projections have been included for future years.

- On the allocation of levy charges between pre-production and in-production licence holders, the respective 11% and 89% split of the total annual cost is based on an assessment of the current proportion of regulatory activity undertaken with respect to each group of licences. In practice, the level of regulatory activity undertaken in respect of pre-production and in-production licences could vary to some extent on an annual basis. The cost mapping will continue to be monitored annually by the OGA and updated as necessary. In addition, in advance of 2016/2017, a new set of Regulations will be brought forward with an amended levy rate taking into account the whole financial year.

- The existing charging regime will remain in place but will be amended after the Energy Bill receives Royal Assent next year to reflect the costs the OGA incurs for providing the services to industry and to expand the scope to recover several additional services via direct charges (rather than through a levy). Until these changes can be made, the costs of these activities will be recovered via the levy.

Risks

Managing accidental deficits and surpluses

44. The intention is to avoid burdening industry and the OGA is committed to keeping costs and administrative burden to a minimum whilst ensuring it is adequately resourced to deliver its remit. If the OGA underspends (i.e. the levy collected exceeds its running costs), it would calculate the amount owed to each licence holder and issue a credit note for that amount to each licence holder. This would be netted off against the amounts falling due the following year.

45. If the levy rate is set too low to recover the OGA's expected costs, the OGA would first attempt to work within budget by re-prioritising work. If it was not possible, the OGA will seek approvals from DECC and HMT before revising its budget and considering amending the levy rate.

Unpaid levy

46. The intention is that interest will be charged in respect of unpaid amounts of licensing levy and unpaid amounts will be recoverable as a civil debt. The interest rate will be set out in regulations and will reflect the standard cost of borrowing.

Investor confidence

47. The introduction of secondary legislation to recover costs via a levy could have negative or positive effects on investor confidence. Given that the industry has been supportively involved in the Wood Review and that the Government has clearly signalled its intent to regulate and establish a levy, we do not expect the introduction of legislation to impact on investor confidence. While it is recognised that no cost increases are welcome for an industry that already faces significant challenges in the UKCS, the Government believes that the relatively modest investment that will be required will be

paid back over time by improved performance, greater recovery and improved tax receipts across the basin. In line with the established practice across regulation and service delivery, the Government considers it is appropriate for the body to recover its costs from companies who will benefit from its services as a Regulator.

6. Rationale and evidence that justifies the level of analysis

48. The analysis contained in this Impact Assessment is considered proportionate to the development of OGA business planning. There is uncertainty around costs beyond FY2015/16 at this stage as they will vary annually in line with activity levels on the UKCS, the corresponding volume of work undertaken by the Regulator and amendments to the existing direct fee charging scheme. Consequently no projections have been included for future years. Ahead of 2016/2017, a new set of Regulations will be brought forward with an amended levy rate taking into account the whole financial year. The OGA will share its business plans with industry to ensure transparency and will consult DECC and HM Treasury to ensure its budget has been sufficiently scrutinised to deliver maximum value for money.

7. Small and Microbusiness Assessment (SMBA)

49. The exact number of small or microbusinesses (defined as having up to 49 FTE and 10 FTE employees respectively, as per BIS Better Regulation Framework Manual) in the exploration or production of the UKCS is unknown, however, both types of companies operate in this sector.

50. The Government believes that including businesses of all sizes in the policy will promote a higher level and more effective co-ordination by the new Regulator and will allow extracting the maximum benefit from the implementation of MER UK principles. Small and microbusinesses will benefit from access to the infrastructure and the synergies resulting from joint field exploration and development that would not be achieved by excluding them from the policy.

8. Summary and description of implementation plan

51. In summary, the proposal is to introduce a levy on industry in order to fund the activities of the OGA. The levy would be allocated based on the proportion of costs incurred as a result of activities undertaken for pre-production and production licensees. The total cost to be recovered from the two groups would then be divided equally according to the number of licensees in each. The approach is designed to ensure, so far as practicable, that the costs to industry licence holders fall to those that impose the costs on the OGA i.e. cost-reflective charging.

52. It is proposed that the new levy structure and rates will be brought into effect once the Statutory Instrument has been laid before Parliament and brought into force (negative resolution procedure). The legislation is expected to come into force on 1 October 2015 and continue thereafter.

53. The total amount due from each company would be requested at the start of the financial year (April), except for the first charging period when invoices will be issued in early October. Prior to that, the OGA will seek approval for its proposed budget from DECC and HMT. We will expect industry to be involved in the process, and in line with the tripartite approach, to be consulted on the OGA's business plan. As with any other use of public resources, it is important to monitor performance and review the service routinely at least once a year, to check, and if appropriate revise, the charging level.