

## Regulator Assessment: Qualifying Regulatory Provisions

<b>Title of proposal</b>	United Kingdom Continental Shelf (UKCS) Stewardship Survey
<b>Lead Regulator</b>	Oil and Gas Authority
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<b>Date of assessment</b>	31/03/2017
<b>Commencement date</b>	16/11/2016
<b>Origin</b>	Domestic
<b>Does this include implementation of a Cutting Red Tape review?</b>	No
<b>Which areas of the UK will be affected?</b>	UK wide

### **Brief outline of proposed new or amended regulatory activity**

#### Background

1. The Oil and Gas Authority (OGA) was established as an Executive Agency of DECC (now BEIS) on 1 April 2015 to regulate, influence and promote the UK oil and gas industry. On 1 October 2016, the OGA became a government company limited by shares under the Companies Act 2006, with the Secretary of State for Business, Energy and Industrial Strategy the sole shareholder. The establishment of the OGA as an independent government company formalised the transfer to the OGA of the Secretary of State's regulatory powers, in respect of the oil and gas licensing regime<sup>1</sup>, and granted it new powers, as introduced by the Energy Act 2016. The creation of the OGA was one of the key recommendations of Sir Ian Wood's 2014 review looking at how economic recovery of United Kingdom Continental Shelf (UKCS) oil and gas could be maximised.
2. A principal objective, to maximise the economic recovery of UK (MER UK) offshore oil and gas resources, has been set out in statute and the OGA must act in accordance with any strategies produced to meet this objective. The MER UK Strategy underpins much of the work of the OGA, setting out how the principal objective should operate in practice, for the OGA and industry, and is legally binding.
3. The OGA has been granted a range of regulatory powers to help deliver the principal objective – including new powers under the Energy Act 2016 (the Act) relating to the reporting, retention and disclosure of information and samples. Section 34 of the Act states that OGA can request relevant persons to provide it with any petroleum-related information and samples for the purpose of carrying out any functions of the OGA which are relevant to the fulfilment of the principle objective of MER UK.

<sup>1</sup> The OGA's parent Department, BEIS, remains the offshore regulator for environment and decommissioning issues as before, working in close partnership with OGA and the HSE in the interests of joined up, transparent and effective regulation of the UKCS.

### UKCS Stewardship Survey

4. In November 2016, the OGA introduced a new annual “UK Continental Shelf (UKCS) Stewardship Survey” (the Survey). Completion of the Survey is a statutory requirement upon industry operators and licensees under the new regulatory powers (Section 34 of the Act).
5. The new Survey replaces and integrates nine previous industry surveys which were issued either by the OGA (or its predecessor, the Department of Energy and Climate Change), the OGA with Oil & Gas UK or Oil & Gas UK independently at various points throughout the year. While previous industry surveys were long standing and many had high response rates of close to 100%, only one of them (‘Data for UK Government Reserves’) was mandatory under the licence Model Clauses.
6. In creating a single source of aligned, robust data, the intention was to streamline the way in which data are gathered and analysed into a more efficient format; reducing complexity, time and duplication of effort for operators, licence holders and the OGA. OGA subject matter experts worked with Oil & Gas UK and industry over a number of months to deliver the survey and the new consolidated approach now better aligns the timing of the data request with the annual industry business planning cycle.
7. The survey data will be used to inform asset stewardship reviews and provide meaningful insights into current and forecast activity in the UKCS. They will also facilitate robust economic modelling of UKCS fields and hubs, helping to build regional strategies and area plans. The OGA will also use the survey for benchmarking and issue a number of reports which will provide valuable insights for industry. This approach to data collation will also create a virtuous cycle of data quality improvement over time. The Survey data will be held by the OGA in accordance with the Energy Act 2016.
8. The previous industry surveys covered most aspects of the oil and gas lifecycle. The new single Survey covers the entire Exploration and Production (E&P) lifecycle (Licensing through to Decommissioning) and includes new sections of the E&P cycle including: Licensing, Exploration and Appraisal, Activity, Reserve Management, Wells, Production Efficiency, Decommissioning, Supply Chain, Technology and, Information Management. It is expected that the data requested in the new Survey will, where relevant, already be held by operators and used for their own internal purposes. In addition, much of the information requested in the new Survey was submitted in previous surveys but often in a different reporting format.
9. An OGA Energy Portal application has been introduced with an interface for operator data submission, and a secure database for data storage. This replaces the spreadsheet based data collection method and email submission approach used in the previous nine surveys.

### **Which type of business will be affected? How many are estimated to be affected?**

10. In total, 77 oil and gas operators and licensees in the UKCS were required to complete parts of the UKCS Stewardship Survey. The statutory obligation to complete the survey applies to all operators regardless of size. It is expected that the majority of in-scope businesses will be large operators, defined as having defined as having more than 50 FTE employees, as per the BEIS Better Regulation Framework Manual.
11. While the exact number of operators in each sideband (micro, small, medium, large) is unknown, the time taken by each company to complete the survey is expected to be representative of the scale of their activities in the UKCS. The burden should therefore be less for smaller operators as they will have fewer assets on which to report and are likely to be less active across the E&P life cycle.

## **Regulatory change covered in this Impact Assessment**

12. This Impact Assessment (IA) provides estimates of the compliance costs to businesses from completing the new statutory UKCS Stewardship Survey. The monetised impacts are based on the estimated resource costs to business from a combination of the time spent by employees on data entry within the Energy Portal and on collating the data offline prior to entry.

13. The following methodology is used to measure costs to businesses:

***Burden to Business for Completing the Survey =***

***The Number of Businesses affected by the Survey \* Average Time (hrs) required to complete the Survey \* Average Hourly Wage Rate (£/hr)\* Frequency of Survey per annum***

14. As set out above, while the Survey is a statutory requirement on all operators, it replaces and integrates up to 9 previous surveys, all but one of which was voluntary ('Data for UK Government Reserves'). In terms of assessing and scoring the regulatory burden to business under the Business Impact Target (BIT), this IA therefore monetises the estimated incremental cost to business from the expansion in regulatory activity i.e. completing all sections of the survey apart from those questions relating to Reserves which were already mandatory.

15. While it is important to note that the real incremental cost to industry in practice may, as a result, be overstated (historically the voluntary surveys have had high completion rates), the treatment of now statutory survey obligations is considered consistent with the necessary approach for BIT accounting purposes.

16. The net incremental cost to business is therefore calculated as follows:

***Net incremental cost to business = Total estimated resource cost incurred in completing the new UKCS Stewardship Survey - Baseline estimated resource cost incurred in completing the previous mandatory Reserves survey***

### **Gross cost to business from completing new UKCS Stewardship Survey**

17. The assessment of the resource requirement for data entry within the Energy Portal is informed by usage data which reports the total duration that each company was logged into the system. As would be expected, the data suggests that the time taken to complete the Survey varied based on the number of assets held by companies (e.g. fields, pipelines etc.) and the extent to which they are active across numerous sections of the E&P lifecycle. These factors determine the number of sections of the survey that need to be completed by the operators. The burden on operators should therefore be broadly proportionate to the scale of their activities in the UKCS. For example, for some small operators the time spent on the Energy Portal in total was under 1 hour, while for larger operators it was in the range of 150-500 hours.

18. For the purposes of this analysis - which is intended to show the impact on the industry overall - the average time taken across all operators to complete the Survey has been used. On average operators spent 70 hours (around 9 working days) submitting information on the Energy Portal. It is recognised that by using data on log-in durations, the estimate could, to some extent, overstate the number of hours spent working on the survey as it will include periods of time where users were inactive or focussed on other non-survey tasks. However, as no information is available to make such an assessment the total time spent online by each operator is used as a prudent assumption of the resource requirement.

19. In addition to the time spent online for entry, operators spent time working offline in order to identify and collate the source data required. It is likely this would have entailed them collating information from their internal spreadsheets and databases, reformatting the data, converting units where necessary, and undertaking quality assurance exercises. Based on informal feedback from industry, it is considered reasonable and proportionate to assume that the offline preparatory work required twice as much resource as the average time spent on online. This gives an estimate of 140 hours (around 26 working days) offline and 210 hours on average per operator in total to complete the survey for the first year transitional cost. For subsequent years, it is assumed that costs will decrease by 20% (168 hours) from year 2 onwards as operators are likely to have established internal data gathering processes and become familiar with the Energy Portal.
20. In order to estimate the resource cost of employee time spent completing the Survey, the average hourly wage rate for Full Time Equivalent (FTE) staff, was taken from the Annual Survey of Hours and Earnings (ASHE).<sup>2</sup> The average cost per hour for a corporate manager in 2016 was around £31.88 (per hour) including 20.2% uplift for non-wage costs).<sup>3</sup> The wage rate is multiplied by the total hours required to determine the cost of completing the Survey (e.g. £31.88/hour \* 210 hours in Year 1).
21. Familiarisation time is assumed to be captured in the estimated time taken on average to complete the survey. The estimated 210 hours in total per company therefore includes users familiarising themselves with the new portal; reading the online portal guidance notes, understanding the questions and contacting the help desk for clarification.
22. Table 1 below shows a breakdown of the estimated total resource cost. It is estimated that the one-off transitional cost in the first year will be approximately £515,452 (undiscounted) for the total number of businesses affected. The estimated cost per business is estimated to be £6,694 per annum (undiscounted) for the first year. In subsequent years, the cost to business is estimated to be approximately £412,361 per annum. The resulting NPV over an appraisal period of 10 years is £3,652,568 (2017 prices, 2017 present value base year, 3.5% discount rate), and the EANDCB is £383,903 (2014 prices, 2015 present value base year, 3.5% discount rate).

**Table 1: Annual cost per annum for the UKCS Stewardship Survey**

Frequency	1	1
Number of businesses affected	77	77
Hours required (average)	210 hrs	168 hrs
Wage rate (per hour)	Corporate Manger (£31.88 p/h)	Corporate Manger (£31.88 p/h)
Calculation (Frequency * Number of businesses affected) * (hours required* wage rate)	(1* 77) * (210* 31.88)	(1*77) * (168 * 31.88)
<b>Total Cost to business per annum (undiscounted)</b>	£515,452	£412,361

<sup>2</sup> ONS, (2016), Annual Survey of Hours and Earnings: 2016 Provisional Results, available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashetable14>

<sup>3</sup> ONS, Annual Survey of Hours and Earnings (ASHE), October 2016; Table 14.5a, Corporate Managers and Directors. EUROSTAT 2016 non-wage cost uplift factor of 20.2% applied.

Gross cost to business from completing the previous mandatory Reserves survey

23. As outlined above, the previous ‘Data for UK Government Reserves’ survey – a statutory requirement under Model Clauses – has been incorporated into the new Survey in the ‘Reservoir Management’ section. The estimated cost to business in previously completing this survey therefore has to be subtracted from the overall gross costs to business in completing the UKCS Stewardship Survey to establish the net incremental regulatory burden.
24. In order to estimate the time taken to complete the previous survey, an estimated proportion of time for users to complete the ‘Reservoir Management’ section was used. There were approximately 349 questions in total for the new Survey and 47 questions corresponded to the ‘Reservoir Management’ section (13%). This proportion was applied to the total hours required to complete the new Survey (210 hours\* 13%), which resulted in an estimate of 28 hours or 3.5 days to complete the previous Data for UK Government Reserves survey. The number of operators that were sent the survey varied from year to year, as fields started up, shut down or as companies merged. Results from the previous survey showed that 33 operators responded to the survey, which is the figure used as the number of businesses affected.
25. Table 2 below shows a breakdown of the estimated resource cost. The total cost to all businesses from previously completing the Survey, is estimated to be £29,750 (undiscounted). The average cost per business is estimated to be £902 (undiscounted). The estimated average cost to the employer per hour for a corporate manager is around £31.88. The resulting NPV over an appraisal period of 10 years is £256,077 (2017 prices, 2017 present value base year, 3.5% discount rate), and the EANDCB is £26,915 (2014 prices, 2015 present value base year, 3.5% discount rate).

**Table 2: Annual cost per annum for the Data for UK Government Reserves Survey**

Frequency	1
Number of businesses affected	33
Hours required	28 hours
Wage rate (per hour)	Corporate Manger (£31.88 p/h)
<b>Calculation</b>	
(Frequency * Number of businesses affected) * (hours required* wage rate)	(1*33)*(28*31.88)
<b>Total Cost to business per annum</b>	£29,750

Net incremental to business from completing the UKCS Stewardship Survey

26. As outlined above, the net incremental cost to business is calculated as follows:

***Net incremental cost to business = Total estimated resource cost incurred in completing new UKCS Stewardship Survey - Baseline estimated resource cost incurred in completing the previous mandatory Reserves survey***

27. As reported in Table 3, total incremental cost per annum is estimated at £485,702 for year 1 and £382,612 for subsequent years per annum. The resulting NPV over an appraisal period of 10 years is £3,396,491 (2017 prices, 2017 present value base year, 3.5% discount rate), and the EANDCB is £356,988 (2014 prices, 2015 present value base year, 3.5% discount rate) resulting BIT score is

calculated as £1,784,941.

28. The EANDCB and BIT score reflect the estimated incremental cost to business from the expansion in regulatory activity i.e. completing all sections of the survey apart from those questions relating to Reserves which were already mandatory. While it is important to note that the real incremental cost to industry in practice may, as a result, be overstated (historically the voluntary surveys have had high completion rates), the treatment of now statutory survey obligations is considered consistent with the necessary approach for BIT accounting purposes.

**Table 3: Summary of Annual Costs to Business**

	<b>Year 1</b>	<b>Subsequent years (per annum)</b>
Gross costs from UKCS Stewardship Survey	£515,452	£412,361
Minus baseline costs from previous Reserves Survey	£29,750	£29,750
<b>Net Incremental Annual Cost to Business</b>	<b>£485,702</b>	<b>£382,612</b>

### **Non-monetised impacts from introducing the new UKCS Stewardship Survey**

#### Impacts on operators

29. Operators will no longer have to complete multiple surveys throughout the year and there has been a reduction in the total number of questions asked in the new Survey (349 questions) compared to in the previous range of surveys (472 questions). This was partly achieved by removing duplicate questions that were found across the range of previous surveys. However, it is recognised that the burden of the new survey relative to the old surveys may impact on some companies more than others, as new sections have been included and of the total number of questions, a number of these were new.

30. Feedback from industry has been sought on their experiences in completing the survey which will be used to inform the approach going forward in terms of design, content, accompanying guidance notes and IT processes. While much of the feedback was supportive of the new consolidated approach and use of the Energy Portal for reporting purposes, other feedback suggested that the resource requirement was significantly greater than required to complete the previous surveys. In part, the responses suggest that the additional time taken this year reflects a transitional cost and that in future years any incremental burden should be reduced as the internal processes, templates and learning have now been established.

#### Impacts on the OGA

31. The consolidated approach of the new Survey and the online portal brings benefits to the OGA including:

- The new mandatory Survey will provide an integrated view of the data, rather than having datasets in silos and collected at various points in the year.
- The introduction of the new Energy Portal system will provide a robust method for data analysis, trend analysis, charting and visualisation. This will result in less overall time spent by OGA staff in tracking and analysing the various survey submissions.
- All data from the Survey will be stored in the secure database for future use.
- The OGA will use the Survey to create better insights and understanding of operations and activities in the UKCS;

- Supporting the OGA's asset stewardship capability and helping to inform regional strategies and area plans and
- Provision of information to industry to support performance improvements

**Please provide any additional information (if required) that may assist the RPC to validate the BIT Score**

32. The analysis contained in this IA is considered proportionate. The estimates have been calculated based on a combination of actual portal usage data and informal feedback from industry. A default appraisal period of ten years has been used to calculate the NPV, EANDCB and BIT estimates.

33. As there is uncertainty around the number of operators that will be active in the UKCS over the appraisal period and the aggregate level of activity, these key assumptions have been assumed to remain constant over time.

<b>Summary of costs and benefits</b>						
<b>Price base year</b>	<b>Implementation date</b>	<b>Duration of policy (years)</b>	<b>Net Present Value</b>	<b>Business Net Present Value</b>	<b>Net cost to business (EANDCB)</b>	<b>BIT score</b>
2017	2017	10	£3.4m	£3.4m	£0.4m	£1.8m (Rounded to £2m)