

Oil and Gas Authority

Department of Business, Energy and Industrial Strategy

Non-qualifying regulatory provision assurance statement: confirmed

Under the better regulation framework, for measures being introduced during the 2017-22 parliament there is no requirement for regulators to submit their NQRP summaries for Regulatory Policy Committee (RPC) assurance. The RPC welcomes the Oil and Gas Authority's voluntary submission of its 2018/19 NQRP summary for RPC assurance.

The RPC is content that, based on the summary information provided by the regulator, none of the measures or activities covered in the annexed summary document should be considered as a qualifying regulatory provision for the purposes of the business impact target (BIT). This assurance statement does not provide a detailed view of any specific activity in the regulator's summary document. Nor does it comment on any activities not covered in the summary. Some activities might, however, have been the subject of separate assessments of qualifying regulatory provisions.

Comments on the non-qualifying regulatory provision summary

The regulator has reported, in its statement, measures that fall within the following excluded categories: *de minimis*; regulator casework; and education, communications and promotion.

The regulator's summary includes a good description of each measure and brief analysis of its expected impacts on business. It also includes a comprehensive assessment of familiarisation costs associated with new/updated guidance documents. The regulator's summary includes a number of helpful statements, such as "*...the guidance does not place any added burdens on industry and is not a substitute for any regulation or law and is not legal advice*". In relation to 'education, communications and promotion', it also helpfully confirms that none of the material produced creates a new regulatory standard that business will be expected to follow. This is helpful in providing assurance that none of the measures reported are qualifying regulatory provisions.

The RPC is, therefore, content with the regulator's assessment of the measures against the exclusion categories in the present better regulation framework and that they are, therefore, non-qualifying regulatory provisions.

The summary could be improved by the following:

Non-wage labour cost uplifts. The regulator appears to have incorrectly used the proportion of labour costs that are non-wage labour costs (17.1 per cent) as the uplift to ASHE wage costs. The correct uplift is 20.6 per cent; annex A is an RPC guidance note which explains how this figure is calculated (which involves using the 17.1 per cent figure). In addition, the calculation on page 3 of the summary appears to omit non-wage labour costs. Neither of these points affect the classification of these measures as *de minimis*.

Explicit confirmation that there are no measures under the other BIT exclusion categories. The summary would benefit from listing the other BIT exclusion categories and including a statement against each that, following consideration of the exclusion category, there are no measures for the reporting period that qualify for the exclusion.

Regulatory Policy Committee

Annex A

Calculating non-wage uplifts

When calculating labour costs, you should normally include non-wage uplifts of 20.6 per cent of the wage. You should consider whether there are any specific circumstances that might warrant a different rate for a specific measure. The details of this calculation are outlined below.

In 2016/17 the Cross-Whitehall Group Regulator Appraisal Group sub-group produced a report called 'Appraisal of guidance'. This was a document aimed at helping regulators to complete their business impact target (BIT) assessments on the impact of guidance changes. A revised version of this report was sent to regulators by BRE on 28 February 2017.

This document included guidance on non-wage labour cost uplifts. Page 6 stated: *"Price consists of a tariff and time. For activities carried out internally, the tariff comprises wage costs and non-wage costs (e.g. national insurance and pensions contributions). For activities carried out by an external provider, the tariff is comprised of the hourly external rate. Time is the amount of time required to complete the activity. The ONS Annual Survey of Hours and Earnings (ASHE) can be used for obtaining median hourly wage rates, and EUROSTAT can be used to estimate non-wage costs (the 2016 uplift factor based on EUROSTAT wage data is 20.2%). For external costs, an estimate of the national average can be used."* The report included a link to the Eurostat page with 2016 data on non-wage labour costs.

As a result of the RPC's scrutiny of regulator BIT assessments covering the period 2017-18, BRE and the RPC felt it would be worthwhile to issue up-to-date guidance and a worked example to assist future regulator BIT assessments.

How to calculate non-wage labour cost uplifts

The link to the 2017 Eurostat figures is: http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Hourly_labour_costs_in_euro_CORR.png.

The Eurostat table shows non-wage costs to be 17.1 per cent of overall hourly labour costs in the UK.

The calculation of the non-wage labour cost uplift can be explained as follows:

If non-wage costs are a 17.1 per cent of total labour costs, it follows that wage costs are 82.9 per cent total labour costs (1-0.171).

In BIT assessments, regulators (and indeed departments with impact assessments) normally have only wage costs from ASHE. Therefore, to calculate the overall hourly labour cost one needs to add non-wage costs. To do this, multiply the wage cost by $(1 + (\text{non-wage cost}/\text{wage cost}))$. For 2017, this is:

wage cost * $(1 + (0.171/0.829))$

or

wage cost * $(1 + 0.206)$

i.e. the uplift is 20.6 per cent. In other words, hourly wage costs would be scaled up by this amount (i.e. multiplied by 1.206) to arrive at overall hourly labour costs.

Alternatively, regulators could contact BEIS labour markets who calculate the uplift and could provide it directly. This is illustrated further in Annex 1 below.

Annex 1

When you are determining the cost of labour you should include the wage cost and the non-wage cost as these make up the total labour cost. The wage cost will essentially be the wage per hour or equivalent. The non-wage labour cost includes employers' national insurance and pension contributions.

The RPC recommends that you take the wage cost data from the Annual Survey of Hours and Earnings provided by the Office of National Statistics. There may, of course, be a more relevant data source for your policy which you are welcome to use if you explain where the data comes from and why it is relevant.

The RPC recommends that you take the non-wage cost from the column from the 'Eurostat's statistics table' as standard, and more specifically the UK figure should be included. **The UK figure shows that 17.1% of the total labour cost is non-wage costs.** It does not refer to the percentage of wage costs that are non-wage costs.

A general guideline is:



Let's use a numerical example:

- Say wage cost is £15 and we want to find total labour cost. All we have is the wage cost and the 17.1% from the 'Eurostat table'
- Since we know non-wage cost is 17.1% of total labour cost, we can work out that wage cost is 82.9% of total labour cost.
$$100\% - 17.1\% = 82.9\%$$
- We can divide 17.1% by 82.9% to see what non-wage cost is as a percentage of wage cost, this gives us 20.6%.
$$17.1\% / 82.9\% = 20.6\%$$
- We can work backwards and multiply £15 by 20.6% to get non-wage cost, in this case it is £3.09.
$$£15 \times 20.6\% = £3.09$$
- Now we have non-wage cost (£3.09) and wage cost (£15) which we can add together to get total labour cost of £18.09.
$$£15 + £3.09 = £18.09$$

REGULATOR: THE OIL AND GAS AUTHORITY

Business Impact Target Reporting Period Covered: 21 June 2018 – 20 June 2019

Excluded Category*	Summary of measure(s), including any impact data where available**
De minimis (measures with an EANDCB below +/- £5 million)	<p>GUIDANCE DOCUMENTS – FAMILIARISATION COSTS</p> <p>The OGA issued new guidance and amended previous guidance in order to convey and clarify the procedures in regard to its existing powers. The guidance was issued to provide clear, accessible and concise material that businesses can have regard to in complying with OGA’s requirements and to support the principal objective of maximising economic recovery of UK oil and gas resources (MER UK). The guidance is intended to reduce the time taken to understand obligations.</p> <p>Analysis was carried out to determine the direct cost to business for familiarising themselves with the eight guidance documents published during the reporting period. The total cost to industry related to reading the eight guidance documents was estimated to be £0.1 million (2016 prices, 2017 present value) in Equivalent Annual Net Direct Cost to Business (EANDCB) terms.</p> <p>The following methodology was used to estimate costs to business:</p> <p><i>Burden to business for familiarisation with guidance =</i></p> <p><i>Number of businesses affected * Time (hrs) required to read the guidance * Average hourly wage rate (£/hr) * No. of personnel reading the guidance per annum</i></p> <p>It was assumed that interested businesses that may familiarise themselves with the guidance are current licensees and licensed and non-licensed infrastructure owners. There is currently a total of 149 unique licensees and 70 infrastructure owners, of which 66 are licensees. Based on this data, it was assumed that a total of 150 businesses may familiarise themselves with the guidance documents.</p>

Excluded Category*	Summary of measure(s), including any impact data where available**
	<p>To estimate the cost of reading the guidance documents, a consistent methodology was followed, where the document word count is divided by an average reading speed of 200 words per minute¹. The average hourly wage rates for Full Time Equivalent (FTE) staff were taken from the Annual Survey of Hours and Earnings (ASHE),² uplifted by 17.1% to cover for non-wage costs.³ For each guidance document, a common assumption was used for the number of personnel within each business expected to read the guidance⁴.</p> <p>The following guidance documents were included in the analysis:</p> <p>UPDATED GUIDANCE DOCUMENT</p> <p>1. Meetings Statutory Notice</p> <p>The OGA updated and revised the Notice setting out the powers granted to the OGA by the Energy Act 2016 for industry to inform the OGA in advance of meetings and provide it with relevant documentation.</p> <ul style="list-style-type: none"> • Familiarisation costs: This guidance is an update on the earlier guidance and there are no additional policy burdens on industry. There is expected to be a familiarisation cost to industry for reading the updated Notice.

¹ Business Impact Target - Appraisal of guidance: assessments for regulator-issued guidance (p.15), Reading Soft, available at: <http://www.readingsoft.com/>

² Personnel ONS (2018), Annual Survey of Hours and Earnings: 2018 Provisional Results Table 14.5 a, available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashetable14>

³ Non-wage cost uplift factor of 17.1% applied using EUROSTAT 2017 wage data [based on: http://ec.europa.eu/eurostat/statistics-explained/images/9/91/Hourly_labour_costs_in_euro_CORR.png]

⁴ Number of personnel assumption: 3 Corporate Managers and 1 Senior Manager per business

Excluded Category*	Summary of measure(s), including any impact data where available**
	<p>2. Updated guidance on financial checks covering applications for onshore and offshore licence applications</p> <p>The updated guidance sets out when the OGA will consider the financial capability of a legal or natural person ('person') and the factors that the OGA will usually take into consideration when doing so. These factors may vary according to the circumstances and will be assessed on a case-by-case basis. The guidance also sets out the steps that a person seeking a decision from the OGA should take to facilitate those considerations.</p> <ul style="list-style-type: none"> <p>Policy and Familiarisation cost: Familiarisation costs are incurred by industry in reading this guidance document. The proposed changes in the financial guidance are expected to have minimal increased cost burden to business compared to the previous financial guidance as a result of increased information being requested from Applicants. The OGA believes that beyond familiarisation costs, any incremental costs to business will be small because the information being requested will not be additional to that which the Applicants will already be using for their internal approvals process and/or required by their finance provider(s).</p> <p>The policy costs to industry have been calculated using the following methodology:</p> <p>Burden to Business for complying with guidance = The number of license applications * Average time (hours) required to comply with the requirements * Average hourly wage rate (£/hr) * No. of personnel reading the guidance per annum</p>

Excluded Category*	Summary of measure(s), including any impact data where available**
	<p>On average, the OGA receives around 300 applications⁵ a year for licensing events where the OGA’s financial guidance is used. Using a consistent assumption based on OGA estimate⁶ on average time required by business personnel to comply with the requirements per application and the wage rate assumptions used for familiarisation costs estimations, the total cost to industry for compliance was estimated to be £0.3 million (2016 prices, 2017 present value) in EANDCB terms. Given the current guidance has been updated from the previous guidance, it was concluded that any incremental cost of compliance is significantly less than the total compliance cost and is within the £5 million EANDCB de-minimis threshold.</p> <p>3. Requirement for the planning of and consent to UKCS field developments</p> <p>This is updated guidance to aid those involved in the planning of a new field development and later consent to a field development plan leading to the production of first hydrocarbons. It intends to provide greater clarity on the development and planning of the next generation of oil and gas development fields. The guidance covers:</p> <ul style="list-style-type: none"> i. An overview of the OGA’s objectives and considerations relevant to all new field developments ii. The Assessment Phase leading to the Concept Select iii. The Authorisation Phase leading to the consent to a Field Development Plan iv. The Execute Phase leading to the production of hydrocarbons v. The process for revising a previously consented-to FDP (i.e. an FDP Addendum (‘FDPA’))

⁵ Source: OGA Publication: Response to the consultation on OGA Financial Guidance, August 2018 [https://www.ogauthority.co.uk/media/5001/financial-guidance-consultation-response-august-2018.pdf]

⁶ Personnel time assumption for compliance: 1 Corporate Manager for 2 days and 1 Senior Manager for 1 day (working hours in a day = 7 hours)

Excluded Category*	Summary of measure(s), including any impact data where available**
	<ul style="list-style-type: none"> • Familiarisation costs: This guidance replaces the earlier guidance and there are no additional policy burden on industry as it is not a substitute for any regulation and does not have binding legal effect. Familiarisation costs are incurred by industry reading this guidance document. <p>4. Guidance on the requirement for the planning for Cessation of Production (CoP)</p> <p>This updated guidance published to assist field operators and licensees involved in the planning for Cessation of Production from a field, a group of fields, an asset within a field (e.g. a platform) or a field acting as a hub. The guidance covers the following:</p> <ol style="list-style-type: none"> i. An overview of the OGA’s requirements and considerations relevant to CoP ii. The process to be followed by licensees in late field life leading to CoP iii. The content and submission of a CoP document by the field operator iv. It explains how the OGA will respond, generally by objecting, or not objecting, to the proposed CoP. <ul style="list-style-type: none"> • Familiarisation costs: This guidance replaces the earlier guidance and there are no additional policy burdens on industry. Familiarisation costs are incurred by industry reading this guidance document. <p>NEW GUIDANCE</p> <p>5. Guidance for applications for suspension of inactive wells</p> <p>Guidance setting out the approach the OGA will take in considering applications from licensees for consent to initial suspension, and any extension of a suspension of inactive wells (that is, a constructed well or wellbore that is neither operational nor fully abandoned) in support of cost effective abandonment. The guidance does not stipulate how industry should make their applications.</p>

Excluded Category*	Summary of measure(s), including any impact data where available**
	<ul style="list-style-type: none"> • Familiarisation costs: There are no additional policy burdens on industry from this guidance as it is not a substitute for any regulation and it does not have any binding legal effect. Familiarisation costs are incurred by industry reading this guidance document. <p>6. Guidance on Satisfactory Expected Commercial Return (SECR)</p> <p>Guidance setting out the analytical approach the OGA will usually take in assessing whether a project achieves a SECR. The guidance does not seek to: extend any part of the MER UK Strategy, its obligations or safeguards; set any new tests as what should be considered economically recoverable petroleum; or set the rate of return for projects or investments.</p> <ul style="list-style-type: none"> • Familiarisation costs: Familiarisation costs are incurred by industry reading this guidance document. The guidance does not place any added burdens on industry and is not a substitute for any regulation or law and is not legal advice. <p>7. Retention of information and samples guidance</p> <p>Guidance enabling industry to understand and fulfil their obligations to keep information and samples under the Offshore Petroleum Retention of Information and Samples Regulations 2018.</p> <p>The regulations will safeguard the long-term curation of important national resources in preserving vital information and samples for future use. The intention is to make the retention process simpler and clearer for industry to follow and help reduce the cost burden involved.</p> <ul style="list-style-type: none"> • Familiarisation costs: Familiarisation costs are incurred by industry reading this guidance document. However, the guidance does not place any added burden on industry. If companies produce data during their business operations they are only required to continue to retain it in the usual way <p>8. Reporting and disclosure of Information and Samples guidance</p>

Excluded Category*	Summary of measure(s), including any impact data where available**
	<p>This guidance is intended to aid understanding of what specific information and samples must be reported, to whom they must be reported, the timescales allowed for reporting and the form and way the information should be reported and how the OGA will disclose the information.</p> <ul style="list-style-type: none"> Familiarisation costs: Familiarisation costs are incurred by industry reading this guidance document. However, the guidance does not place any added burdens on business. The regulations standardise existing practice setting out a standard set of guidance on what must be reported where and to whom and in what format. <p>ANNUAL REPORTS AND ACCOUNTS</p> <p>The OGA published its annual report and accounts 2018-19 (for the year ended 31 March 2017). The OGA published two overview documents (September 2018 and in March 2019) which gives a high-level overview of the OGA and its background, responsibilities, and priorities.</p> <p>PUBLICATIONS AND REPORTS</p> <p>The OGA published the following publications and reports. These documents are for information only and do not set any mandatory activities for industry.</p> <ol style="list-style-type: none"> Projections of UK oil and gas production and expenditure Reports (September 2018 and March 2019) setting out production and expenditure projections for oil and gas on the UKCS. UK Oil and Gas Reserves and Resources Report Report showing the estimated extent of the UKCS overall remaining recoverable reserves and resources. Well Insights Report 2018

Excluded Category*	Summary of measure(s), including any impact data where available**
	<p>Report providing a comprehensive insight into UKCS well stock and activity providing valuable information for operators, service and technology providers.</p> <p>4. Gas to Wire Report OGA report looking at the technical considerations and potential benefits from gas to wire in areas such as the Southern North Sea and East Irish Sea.</p> <p>5. Analysis of UKCS Operation Costs Report summarising operating costs in the UKCS</p> <p>6. UKCS Production Efficiency in 2017 Report summarising production efficiency in the UKCS in 2017</p> <p>7. UKCS Decommissioning 2018 Cost Estimate Report Updated assessment of progress made since the last estimate of decommissioning costs in 2017.</p> <p>8. OGA Investor Overview 2018 Overview of why the OGA believes the UKCS is an attractive investment proposition.</p> <p>9. UK & Norway Technology Hackathon Output Report Output report from two hackathon events held in November 2017 detailing current operator challenges and solutions.</p> <p>10. SNS Salting Study 2017 Results of a study to qualify the impact of salt deposition on production losses and methods of mitigation.</p> <p>11. Technology Insights Report A report detailing the results of over 60 operator’s technology plans</p>

Excluded Category*	Summary of measure(s), including any impact data where available**
	<p>12. MER UK Annual Update 2017</p> <p>Annual update summarising the work of the MER UK Task Forces and the MER UK Steering Group which report to the MER UK Forum.</p> <p>CONSULTATION DOCUMENTS</p> <p>The OGA issued three consultation documents on:</p> <p>1. Guidance to assess financial capability</p> <p>The OGA consulted on the guidance it uses to assess a licensee's financial capability at the time of a licensing event offshore and onshore. The consultation closed on Friday 29 June 2018.</p> <p>2. Reporting and Disclosure of Information and Samples: Supplemental guidance post 2017</p> <p>The OGA consulted on the supplemental disclosure guidance for geophysical data acquired through an Exploration Licence in 2018 or thereafter and its subsequent availability to industry.</p> <p>3. Reporting and Disclosure of Information and Samples: Supplemental guidance pre-2018</p> <p>The OGA consulted on the supplemental disclosure guidance for Geophysical Survey Data acquired through an Exploration Licence before 2018 and its subsequent availability to industry.</p> <ul style="list-style-type: none"> •
Case work	<p>The OGA approved:</p> <ul style="list-style-type: none"> • 32 Field Development Plans / Addendums (FDP / FDPA) cases for offshore oil and gas fields. The FDP approvals allow operators to carry out new field developments while FDPA approvals are for incremental developments in existing fields to recover hydrocarbons.

Excluded Category*	Summary of measure(s), including any impact data where available**
	<ul style="list-style-type: none"> • During the reporting period there were 12 sanctions, disputes or infrastructure access cases resolved without formal intervention. There were no formal sanctions taken. • 498 Field consents (including production, venting, and flaring) were issued • 349 Pipeline works authorisations and associated consents were issued • 564 offshore license events including relinquishments, transfers and terminations took place • 65 onshore license events including relinquishments, transfers and terminations took place <p>The casework listed in this section does not represent a change in burden of regulation placed on business.</p>
Education, communications, and promotion	<p>The OGA has presented its work at various workshops and conferences including:</p> <ul style="list-style-type: none"> • Oslo Energy Forum, Subsea Expo, Scottish Council for Development & Industry, Aker Solutions Technology Day. Decom Offshore 2018, and Topsides 2018 Conference <p>None of the material produced creates a new regulatory standard that business will be expected to follow and attendance at educational and promotional events is not compulsory.</p>
All other excluded categories	Following consideration of the other exclusion categories there are no measures for the reporting period that qualify for the exclusions.

**This column will be updated with the other exemption categories once the Business Impact Target has been announced. Complete the summary box as 'Following consideration of the exclusion category there are no measures for the reporting period that qualify for the exclusion.' where this is appropriate.