CBO TESTIMONY

Statement of
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before the
Committee on Energy and Natural Resources
United States Senate

November 16, 1993

NOTICE

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Mr. Chairman and Members of the Committee, I appreciate this opportunity to discuss the budgetary impacts of two pending bills: S. 1637, the Department of the Interior Reform and Savings Act of 1993, and S. 1638, the Department of Energy Reform and Savings Act of 1993. These two bills contain six Administration proposals for a more effective, efficient, and responsive government. My statement will discuss the budgetary effects of each of the proposals, beginning with the three contained in S. 1637.

IMPROVE THE FEDERAL HELIUM PROGRAM

Title I of S. 1637 directs the Secretary of the Interior to improve the federal helium program by increasing operational efficiency, charging fees that correspond to the government's costs for handling privately owned helium, selling helium at prices comparable to those charged by private industry, and increasing sales to the private sector without disturbing market forces. Title I also provides authority to cancel the Interior Department's $1.3 billion debt to the Treasury for borrowing to purchase helium in the 1960s and 1970s. About $1 billion of this debt is accrued interest; revenues from the program have been insufficient to pay the annual charges.

The Congressional Budget Office's (CBO's) estimate of the budgetary effect of Title I has three parts, following the scorekeeping conventions of the

Budget Enforcement Act of 1990 (see Table 1). The first two parts relate to assumed reductions in the price of helium sold to federal agencies, in response to the directive to sell helium at prices comparable to those charged by private industry. The helium program currently charges federal agencies $55 per thousand cubic feet. We assume that this price will drop to $48 per thousand cubic feet beginning in fiscal year 1995, based on information supplied by the Department of the Interior.

The potential savings to federal customers from this reduction amount to about $9 million over the 1995-1998 period. Those savings could be captured through smaller appropriations to the various federal agencies that purchase helium from the Bureau of Mines. For these savings to reduce the deficit, however, the caps on discretionary appropriations set through 1998 by the Omnibus Budget Reconciliation Act of 1993 (OBRA-93) would have to be lowered by the amounts shown in the first tier of numbers in Table 1. Otherwise, the Congress could use the savings for other spending.

TABLE 1. BUDGETARY IMPACT OF IMPROVING THE HELIUM PROGRAM (By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	Five-Year Total
Potential Appropriation Savings						
Budget authority	0	-2	-2	-2	-2	-9
Outlays	0	-2	-2	-2	-2	-9
Pay-As-You-Go Charge--Outlays	0	2	2	2	2	8
Asset Sale Receipts	0	-3	-6	-6	-6	-21

If the Interior Department were to lower the price of helium, the helium fund would collect less in revenues from federal purchasers. As a public enterprise, the fund is subject to the pay-as-you-go (PAYGO) procedures of the Budget Enforcement Act. The lower revenues from federal customers would result in a charge to the PAYGO scorecard of about \$8 million for the 1995-1998 period (see Table 1). That cost is slightly less than the potential appropriation savings because CBO assumes that the fund will receive increased revenues by charging higher fees to private firms that store helium in Cliffside Reservoir, the Bureau of Mines's storage field. (Currently, private firms do not pay the full cost of this service.)

The third part of CBO's estimate relates to the directive in Title I that the Department of the Interior sell helium to the private sector "in quantities and a manner to avoid undue disruption of the usual markets of producers, processors, and consumers of helium." We assume that additional sales would begin in fiscal year 1995 and that they would amount to about \$6 million annually (on a full-year basis, after 1996) and about \$21 million over the 1995-1998 period (see Table 1). Based on information provided by the department, we also assume that the helium to be sold would come from the existing helium reserve. Under the Budget Enforcement Act's scorekeeping procedures, sales from the reserve to the private sector, as opposed to ongoing sales from current production, are considered asset sales and could not count toward reducing the deficit.

The last portion of Title I, authorizing the President to cancel the helium fund's debt to the Treasury, would have no budgetary effect because the debt is intragovernmental. The outlays that the debt embodies have already been appropriated; the interest portion of the debt is a paper transaction, not an outlay of the federal government.

IMPROVE THE ROYALTY COLLECTION PROGRAM OF THE MINERALS MANAGEMENT SERVICE

Title II of S. 1637 directs the Minerals Management Service (MMS) to improve its management of the Interior Department's royalty collection program. MMS must develop and implement (1) an automated business information system to provide auditors with a complete history of all leases; (2) methods to ensure that royalties are paid correctly; and (3) new compliance and enforcement measures, including penalties for substantial underreporting.

The only portion of Title II that can be scored under the Budget Enforcement Act's procedures is the section that amends the Federal Oil and Gas Royalty Management Act of 1982 and authorizes MMS to assess penalties for substantial underreporting of royalties. The other portions of Title II provide no new authority to the Department of the Interior. CBO's estimate of the directive's budgetary impact assumes that MMS would assess penalties beginning in fiscal year 1996 and that those penalties would amount to about $5 million per year (see Table 2). The penalties would appear in the budget as PAYGO savings.

TABLE 2. BUDGETARY IMPACT OF IMPROVING MMS ROYALTY COLLECTION
(By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	Five-Year Total
Pay-As-You-Go Savings--Receipts	0	0	-5	-5	-5	-15

NOTE: MMS = Minerals Management Service.

Title III of S. 1637 directs the Secretary of the Interior to phase out federal support of state research institutes for mining and mineral resources under the Mining and Mineral Resources Research Act. The title specifies declining authorizations of appropriations during the 1995-1998 period and ends appropriations for this act after fiscal year 1998.

Table 3 shows the potential appropriation savings from Title III relative to an uncapped baseline for the Mineral Institute program, which includes adjustments for inflation after the base year. The 1994 appropriation for this program is about $8 million. The potential savings relative to the 1994 appropriation level without adjusting for inflation would be somewhat less than the savings shown in Table 3. As noted earlier in the description of the budgetary impact of Title I, the caps on appropriations established by OBRA-93 would have to be lowered to use these savings to reduce the deficit.

TABLE 3. BUDGETARY IMPACT OF PHASING OUT THE MINERAL INSTITUTE PROGRAM (By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	Five-Year Total
Potential Appropriation Savings						
Budget authority	0	-2	-3	-6	-7	-18
Outlays	0	-1	-3	-5	-7	-15

Title I of S. 1638 would authorize the Secretary of Energy to sell two Alaskan hydroelectric projects owned and operated by the federal government and to close out the Alaska Power Administration. The sale would be made in accordance with terms and conditions established in negotiated purchase agreements with the prospective purchasers of the two projects. Similar to Title I of S. 1637, CBO's estimate of the budgetary impact of the Alaska Power Administration sale consists of three parts (see Table 4).

TABLE 4. BUDGETARY IMPACT OF ALASKA POWER ADMINISTRATION SALE (By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	Five-Year Total
Asset Sales	0	-83	0	0	0	-83
Pay-As-You-Go Charge--Outlays	0	11	11	11	11	44
Potential Appropriation Savings						
Budget authority	0	-4	-4	-4	-4	-16
Outlays	0	-2	-4	-4	-4	-14

CBO's estimate assumes that the power administration's two hydroelectric projects would be sold early in fiscal year 1995, producing an estimated $83 million in proceeds to the federal government. Under the scoring procedures of the Budget Enforcement Act, receipts from the sale would be considered an asset sale and would not be credited as a reduction in the deficit. After the divestiture, the federal government would no longer receive revenues from the sale of electricity, and that loss would be charged to the PAYGO scorecard as a cost. At the same time, however, the government could realize some appropriation savings, because it would have no operating costs. To turn these potential savings into a reduction of the deficit, the caps on appropriations set by OBRA-93 would have to be lowered.

ALLOW FEDERAL GOVERNMENT/PRIVATE-SECTOR COGENERATION OF ELECTRICITY

Title II of S. 1638 eliminates a provision of the National Energy Conservation Policy Act that prohibits private power plants at government installations from selling excess electrical power off-site. This provision has kept the Department of Energy (DOE)--and other civilian agencies, such as the National Aeronautics and Space Administration, the General Services Administration, and the Department of Veterans Affairs--from entering into agreements with private power companies to construct and operate new cogeneration plants (producing both electricity and steam) at government installations, at no cost to the government. Under such agreements, DOE (and other civilian agencies) could avoid the cost of refurbishing or rebuilding existing steam plants at federal facilities. In addition, agencies could lower their utility costs if the private providers sold power and steam at lower rates than the agencies currently pay.

The largest potential budgetary impact during the next five years would stem from forgone construction costs for replacing or refurbishing existing steam plants. The amount and timing of such savings are quite uncertain. CBO's estimate is thus conservative and assumes forgone construction costs of $30 million for one plant in fiscal year 1997 and $30 million for another plant in fiscal year 1998 (see Table 5); it includes no utility savings for the period. As with other potential appropriation savings, the caps on appropriations set out in OBRA-93 would have to be lowered by the amounts shown in Table 5 in order to reduce the deficit.

TABLE 5. BUDGETARY IMPACT OF ALLOWING FEDERAL GOVERNMENT/ PRIVATE-SECTOR COGENERATION OF ELECTRICITY
(By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	Five-Year Total
Potential Appropriation Savings						
Budget authority	0	0	0	-30	-30	-60
Outlays	0	0	0	-8	-23	-30

REPLACE TREASURY DEBT OF DOE'S POWER MARKETING ADMINISTRATIONS WITH PRIVATE-SECTOR DEBT

Title III of S. 1638 would authorize the Bonneville Power Administration and three other power marketing administrations within DOE to pay off their capital investment debts to the U.S. Treasury with funds borrowed from the private sector. In effect, the power marketing administrations would replace debt owed to the Treasury with debt owed to the public. But the indebtedness of the federal government would not change significantly; DOE's borrowing from the public would substitute for the Treasury's borrowing from the public. The proceeds from bonds sold on the open market by the administrations would not count as receipts to the federal government. Instead, like Treasury borrowing, they would be treated as a means of financing the federal budget deficit.

Substituting agency debt for Treasury debt would result in a cost to the government. Interest rates on the bonds sold by the power marketing administrations would be about 50 basis points higher than on comparable Treasury securities. In addition, the administrations would have to pay an underwriting fee of about 1 percent to private firms. These additional costs, in principle, could be offset by higher electricity rates charged to customers, but the administrations show no signs of raising rates during the 1995-1998 period. Accordingly, the higher interest costs and underwriting fees would result in a PAYGO charge (see Table 6).

DOE officials have characterized the debt buyout proposal as a "win-win situation" because it would lock in the current electricity rate structure for many years and provide the U.S. Treasury with a substantial infusion of cash. That may be the case from their vantage point, but I would characterize the proposal as a "lose-lose situation" from the point of view of taxpayers. Not only would federal interest costs increase, but taxpayers would continue to subsidize the electricity costs of customers of the power administrations--because the prices that the administrations charge do not fully reflect the cost to the government of supplying electricity. To achieve savings and reduce the deficit, the power marketing administrations would either have to raise the rates they charge for hydroelectric power or reduce their operating costs. This proposal would essentially increase their operating costs without increasing electricity rates over the 1994-1998 period.

TABLE 6. BUDGETARY IMPACT OF DEBT BUYOUT FOR DOE'S POWER MARKETING ADMINISTRATIONS (By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	Five-Year Total
Pay-As-You-Go Charge--Outlays	0	0	92	37	37	166

CONCLUSION

To summarize, the six Administration proposals contained in S. 1637 and S. 1638 would have several budgetary effects over the 1995-1998 period. (There are no estimated budgetary effects for fiscal year 1994.) Asset sales from the helium fund and Alaska Power Administration would generate an estimated $104 million in receipts, but those receipts would not count toward reducing the deficit under the scoring procedures of the Budget Enforcement Act. The proposals for debt buyout by DOE's power marketing administrations, closing of the Alaska Power Administration, improvement of the Bureau of Mines' helium program, and better royalty collection by the Minerals Management Service would result in net PAYGO costs of $203 million. The helium program, Mineral Institute, Alaska Power Administration, and electricity cogeneration proposals would result in potential appropriation savings of $103 million in budget authority and $68 million in outlays. To capture these savings as reductions in the deficit, the caps on appropriations that OBRA-93 established would have to be lowered.

In conclusion, the Administration's six proposals for reinventing various energy and natural resources programs offer little in the way of near-term budgetary savings. But the decisions before this committee should not be based simply on short-term budget-scoring concerns. Rather, the potential longer-term benefits that these proposals may offer both the government and the U.S. taxpayer should be the primary focus of deliberations on S. 1637 and S. 1638.