CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 20, 2013

H.R. 2231
Offshore Energy and Jobs Act

As ordered reported by the House Committee on Natural Resources on June 12, 2013

SUMMARY

H.R. 2231 would revise existing laws and policies regarding the development of oil and gas resources on the Outer Continental Shelf (OCS). It would direct the Department of the Interior (DOI) to adopt a new leasing plan for the 2015-2020 period, require auctions of leases in certain areas in the Atlantic and Pacific OCS, and reduce the department's discretion regarding which regions would be included in future lease sales. Under this bill, some of the offsetting receipts from leases issued in newly available areas would be spent, without further appropriation, to make payments to states. Finally, H.R. 2231 would direct DOI to collect fees from certain firms that operate in the OCS and to implement various administrative reforms.

CBO estimates that enacting H.R. 2231 would reduce net direct spending by $1.5 billion over the 2014-2023 period. Pay-as-you-go procedures apply because enacting the legislation would reduce direct spending. In addition, CBO estimates that implementing the bill would cost $40 million over the 2013-2018 period, assuming appropriation of the necessary amounts. Enacting this bill would not affect revenues.

H.R. 2231 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2231 is shown in the following table. The costs of this legislation fall within budget functions 950 (undistributed offsetting receipts) and 300 (natural resources and the environment).

	By Fiscal Year, in Millions of Dollars					
	2014	2015	2016	2017	2018	2014-2018
CHANGES IN DIRECT SPENDING[a]						
Estimated Budget Authority	-55	-70	-90	-265	-190	-670
Estimated Outlays	-55	-70	-90	-265	-190	-670
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	5	15	15	5	3	43
Estimated Outlays	1	14	15	7	3	40

a. CBO estimates that enacting H.R. 2231 would reduce direct spending by $1,515 million over the 2014-2023 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2231 will be enacted near the beginning of fiscal year 2014 and that the necessary amounts will be appropriated for each fiscal year.

Direct Spending

CBO estimates that enacting H.R. 2231 would reduce net direct spending by $1.5 billion 2014-2023 period. That estimate reflects the budgetary effects of provisions that would change the terms and procedures governing the OCS leasing program, authorize direct spending for payments to states, and require firms to pay annual fees for federal inspections of their operations in the OCS.

Payments for OCS leases and the proceeds from inspection fees would be recorded in the budget as offsetting receipts, which are treated as a reduction in direct spending. Because oil and gas production usually occurs several years after a lease is issued, CBO expects that most of the estimated increase in offsetting receipts over the next 10 years would result from bonus bids and rental payments. Most royalty collections associated with those leases would occur in later years. Such estimates are subject to considerable uncertainty, however, because the legislation would affect leasing activity in areas that have not been available for oil and gas development for more than 25 years.[1]

1. For more information about factors affecting OCS leasing activity, see Congressional Budget Office, *Potential Budgetary Effects of Immediately Opening Most Federal Lands to Oil and Gas Leasing,* August 2012. http://go.usa.gov/bQwH

OCS Leasing Activity. H.R. 2231 would revise DOI's current leasing plan for the OCS and limit the department's future discretion in determining where and when auctions for access to those leases should occur. CBO estimates that implementing those changes would increase gross offsetting receipts by $1.2 billion over the 2014-2023 period above the amounts expected under current law.

Under current law, most OCS leasing decisions are made administratively—in consultation with industry and states—for five-year planning periods. H.R. 2231 would reduce that administrative discretion by requiring DOI to auction leases for at least half of the available acreage in areas that the government estimates to contain certain quantities of oil or gas resources. In addition, the department would have to conduct three specific lease sales within two years of enactment: one off the coast of Virginia, one off the coast of South Carolina, and another for leases in the Santa Barbara and Ventura basins in the California OCS that could be developed by using existing offshore facilities or from onshore drilling sites. Finally, DOI would be required to adopt a new leasing plan for the 2015-2020 period that would replace the current leasing plan for the 2012-2017 period.

Leasing in the Atlantic and Pacific OCS. Enacting H.R. 2231 would primarily affect leasing activity in the Atlantic and Pacific OCS. CBO estimates that implementing the bill would increase gross offsetting receipts from leasing in those areas by about $1.0 billion over the next 10 years relative to our most recent baseline estimate of receipts under current law. This estimate of receipts attributable to the legislation reflects CBO's expectation that such leasing would generate proceeds of about $1.8 billion over fiscal years 2014 through 2023 under the bill.[2] However, CBO expects a portion of that amount—$0.8 billion—will be collected under current law. CBO's baseline estimate is less than the amount we estimate from enacting H.R. 2231 for two reasons. First, the current leasing plan for the 2012-2017 period does not include any auctions in the Atlantic and Pacific OCS. Second, the probability of such leasing occurring after 2017 under current law is uncertain because federal and state administrative policies toward leasing change over time.

Leasing in Other OCS Regions. H.R. 2231 also would affect leasing in areas that are temporarily unavailable because of statutory or Presidential restrictions. The Gulf of Mexico Energy Security Act of 2006, for example, prohibits leasing of about 4.4 million acres in the eastern and central Gulf of Mexico until June 30, 2022. In addition, the Bristol

2. CBO's estimate of the receipts from leasing in the Atlantic and Pacific OCS are roughly proportional to the bonus bids that CBO expects will be collected over a comparable period of time for regions in the Central and Western Gulf of Mexico and the Beaufort and Chukchi Seas in Alaska, which are available to be leased under current law and policy. The estimate also assumes that the pace of leasing would be consistent with past trends for areas with undiscovered resources that are geologically dispersed over large areas. Finally, based on the conclusions of a 2011 report sponsored by the American Petroleum Institute, CBO assumes that the amounts paid by bidders per barrel of oil equivalent (BOE) for resources in the Atlantic and Pacific would be about half the amounts expected to be paid for resources in the Arctic National Wildlife Refuge or the Eastern Gulf of Mexico.

Bay area in the North Aleutian Basin in Alaska was withdrawn from consideration through 2017 by the President. CBO estimates that requiring auctions after such restrictions expire would increase gross offsetting receipts by about $0.2 billion over the 2018-2023 period. Most of that increase is estimated to result from additional leasing activity in the Gulf of Mexico in fiscal year 2023.

CBO estimates that enacting H.R. 2231 would have no effect on proceeds from areas that are included in the current leasing plan for the 2012-2017 period because DOI routinely auctions more than half of the available acreage in those areas. Those areas include the central and western Gulf of Mexico and the Beaufort Sea, Chukchi Sea, and Cook Inlet in the Alaska OCS.

Receipt Sharing. H.R. 2231 would authorize certain payments to states affected by OCS activities in areas that would be made available for leasing by this bill and that are outside the central and western planning areas in the Gulf of Mexico. Under H.R. 2231, the percentage of lease payments paid to states would depend on the location and timing of the lease sales. For example, Virginia, South Carolina, and California would receive 37.5 percent of the gross proceeds from the three auctions specified in the bill. Elsewhere, states would receive a 12.5 percent share of the gross proceeds from eligible leases issued under the five-year plan that would take effect in 2015; 25 percent from leases issued under the subsequent five-year plan; and 37.5 percent from leases issued thereafter.

CBO estimates that the receipt-sharing provisions in H.R. 2231 would increase direct spending by $0.3 billion over the 2014-2023 period. That estimate reflects CBO's expectation that such payments would be limited to leases issued in areas that are not included in DOI's current leasing plan for 2012-2017, such as the Atlantic and Pacific OCS. Under this bill, funds would be disbursed to states the year after receipts are collected.

Inspection Fees. H.R. 2231 would direct DOI to collect annual fees to cover the cost of inspecting OCS facilities and drilling operations, subject to certain conditions. The bill would specify the amounts due for various types of activities and would allow DOI to adjust those fees for inflation in future years. Amounts collected under the bill would be deposited in a new fund in the U.S. Treasury and would be available to DOI if appropriated in annual appropriation acts. DOI's authority to collect the fees would expire at the end of fiscal year 2022.

Based on information from DOI, CBO estimates that collecting the inspection fees in H.R. 2231 would increase offsetting receipts by about $0.6 billion over the 2014-2022 period, after adjusting for inflation. The appropriation act for fiscal year 2013 authorized DOI to assess and collect similar inspection fees, but that authority expires at the end of this fiscal year. For this estimate, CBO assumes that the inspection fees authorized by H.R. 2231 would take effect in fiscal year 2014 and extend through fiscal year 2022.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 2231 would cost about $40 million over the 2014-2018 period, assuming appropriation of the necessary amounts. Based on spending patterns for similar activities, CBO estimates that DOI would spend about $32 million over the 2014-2018 period to develop a new five-year plan and complete the environmental, geologic, and economic assessments associated with conducting lease sales in new areas.

In addition, H.R. 2231 would establish two new executive positions at DOI, an Under Secretary and an Assistant Secretary, who would oversee the development of mineral resources on federal lands. The bill also would require the agency to administer drug tests for certain employees who do work related to DOI energy programs. Based on information regarding the salaries for executive positions and support staff within the federal government and the cost of providing drug tests at other federal agencies, CBO estimates that implementing those provisions would cost about $1 million a year over the 2014-2018 period.

Other provisions would codify organizational changes that were implemented by DOI in 2012, subject to certain modifications. Although the duties of the bureaus created by the bill would be similar to those established under current law, H.R. 2231 would assign different names to two of the three entities. Based on information from DOI on the cost of the previous reorganization, CBO estimates that implementing those name changes would cost a total of about $3 million over the next five years because the agencies' websites, regulations, and administrative personnel materials would need to be formally modified.

Finally, CBO estimates that implementing H.R. 2231 would have no significant effect on the discretionary cost of inspecting OCS operations over the 2014-2018 period but would change the budgetary treatment of certain inspection fees. In recent years, the authority for DOI to collect fees for OCS inspections was provided in annual appropriation acts, and the proceeds were netted against the discretionary appropriation. Under H.R. 2231, the proceeds from such fees would be treated as a reduction in direct spending until the fee provisions in the bill expire at end of 2022.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2231 as ordered reported by the House Committee on Natural Resources on June 12, 2013.

	By Fiscal Year, in Millions of Dollars												
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2013-2018	2013-2023
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	-55	-70	-90	-265	-190	-155	-155	-155	-140	-240	-670	-1,515

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2231 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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