CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 7, 2012

H.R. 3407
Alaskan Energy for American Jobs Act

As ordered reported by the House Committee on Natural Resources on February 1, 2012

SUMMARY

H.R. 3407 would direct the Secretary of the Interior to implement an oil and gas leasing program for the coastal plain of the Arctic National Wildlife Refuge (ANWR). Based on information provided by the Department of the Interior (DOI), the Energy Information Administration (EIA), and individuals working in the oil and gas industry, CBO estimates that implementing H.R. 3407 would increase net offsetting receipts (a credit against direct spending) by about $2.5 billion over the 2014-2022 period; therefore, pay-as-you-go procedures apply. Enacting the legislation would not affect revenues.

H.R. 3407 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. 3407 is shown in the following table. The costs of this legislation fall within budget functions 300 (natural resources and environment) and 800 (general government).

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
CHANGES IN DIRECT SPENDING [a]													
Estimated Budget Authority	0	0	-375	-750	-375	*	-450	-450	*	-100	*	-1,500	-2,502
Estimated Outlays	0	0	-375	-750	-375	*	-450	-450	*	-100	*	-1,500	-2,502

Notes: Components may not sum to totals because of rounding; * = between -$500,000 and $0.

a. CBO estimates that implementing H.R. 3407 also would cost about $8 million over the 2012-2017 period, assuming availability of appropriated funds, for the administrative costs of conducting the lease sales.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted during 2012.

H.R. 3407 would direct the Secretary of the Interior to implement an oil and gas leasing program for lands located within the coastal plain of ANWR, which includes about 1.5 million acres of federal land on the northeast coast of Alaska. Because, under current law, activities related to oil and gas leasing in ANWR are prohibited, CBO estimates that implementing the bill would increase net offsetting receipts (a credit against direct spending) by about $2.5 billion over the 2014-2022 period.

The bill would require the Secretary to hold 8 lease sales over a 6-year period and to offer at least 50,000 acres of land in ANWR for lease at each sale. After completing those sales, DOI could choose to offer additional lands for leasing. Any lease sales in ANWR would be carried out in accordance with procedures used to conduct oil and gas leasing on other federal lands under current law. For each lease awarded, lessees would pay the federal government bonus bids to acquire the leases, annual rent to retain the leases, and royalties based on the value of any oil or gas production from the leases. Under the bill, Alaska would receive one-half of the gross proceeds generated from the leasing program.

CBO estimates that implementing the legislation would cost $8 million over the 2012-2017 period for administrative costs associated with the leasing program subject to the availability of appropriated funds. Because the bill would deem a previously-completed environmental impact statement as sufficient to meet the requirements of certain environmental laws, CBO estimates that any additional costs associated with complying with those laws would be minimal. We estimate that other implementation costs would total between $1 million and $2 million per year.

Bonus Bids

CBO estimates that gross proceeds from bonus bids paid for the right to develop leases in ANWR would total $5 billion over the 2014-2022 period. That estimate is based on historical information about oil and gas leasing in the United States and on information from DOI, EIA, and individuals working in the oil and gas industry about factors affecting the amounts that companies are willing to pay to acquire oil and gas leases. In addition, CBO relied on estimates prepared by the United States Geological Survey of the amount of oil that might be produced from the coastal plain of ANWR. As specified in the legislation, one-half of all receipts from leases in ANWR would be paid to Alaska, leaving net federal receipts totaling $2.5 billion over the 2014-2022 period.

Estimates of bonus bids for leases in ANWR are uncertain. Potential bidders might make assumptions that are different from CBO’s, including assumptions about long-term oil prices, production costs, the amount of oil and gas resources in ANWR, and alternative investment opportunities. In particular, oil companies have other domestic and overseas investment options that they would evaluate and compare with a potential investment in ANWR. The potential profitability for a wide range of such global investment options would likely be a significant factor in prospective bidders' ultimate choices of how much to bid for ANWR leases. The number of factors that affect companies' investment decisions result in a wide range of estimates for bonus bids. CBO's estimate reflects our best estimate of the midpoint of that range.

Other Receipts

In addition to receipts from bonus bids, CBO estimates that the federal government would collect net receipts from rental payments totaling less than $500,000 annually over the 2014-2022 period. (Lease holders make an annual rental payment until production begins.) We also estimate that the federal government would receive royalty payments on oil produced from ANWR leases; however, based on information from EIA regarding the amount of time necessary to drill exploratory wells, complete production plans, and build the necessary infrastructure to produce and transport any oil produced in ANWR, CBO expects that no significant royalty payments would be made until after 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. 3407 as ordered reported by the House Committee on Natural Resources on February 1, 2012

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	-375	-750	-375	0	-450	-450	0	-100	0	-1,500	-2,502

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3407 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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