CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 7, 2012

H.R. 3408
PIONEERS Act

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

SUMMARY

H.R. 3408 would direct the Secretary of the Interior to implement a commercial leasing program for oil shale on certain federal lands by 2016. Oil shale is rock that can be heated to extract an organic compound used to produce synthetic crude oil. The bill also would require the Secretary to offer 10 leases on federal lands in 2013 for the purpose of conducting research and demonstration projects for oil shale development.

Based on information provided by the Department of the Interior (DOI) and individuals working in the oil shale industry, CBO estimates that enacting H.R. 3408 would affect direct spending; therefore, pay-as-you-go procedures apply. However, CBO estimates that the net effects would not be significant over the 2012-2022 period. Enacting the legislation would not affect revenues. CBO estimates that additional administrative costs to implement the leasing program under the bill would be small and subject to the availability of appropriated funds.

H.R. 3408 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. 3408 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													
Estimated Budget Authority	0	*	0	0	-5	*	*	*	*	*	5	-5	0
Estimated Outlays	0	*	0	0	-5	*	*	*	*	*	5	-5	0

Note: *= Between –$500,000 and $0.

BASIS OF ESTIMATE

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

H.R. 3408 would direct the Secretary of the Interior to offer leases for research and commercial development of oil shale on certain federal lands in Colorado, Wyoming, and Utah by 2016. DOI has the authority, under current law, to lease federal land in those states for oil shale research as well as commercial development. For that reason, CBO estimates that while the bill would expedite some leasing, implementing the legislation would have no significant net impact on the federal budget over the 2012-2022 period.

The bill would require the Secretary to hold 5 commercial lease sales by early 2016 and to offer at least 25,000 acres of land for lease at each sale. Those sales would be conducted in accordance with procedures established by DOI for leasing oil shale resources on federal lands. For each commercial lease awarded under the bill, lessees would be required to pay the federal government a bonus bid to acquire the leases, annual rental payments to retain the leases, and royalty payments based on the value of any resources produced from the leases. Half of the gross proceeds from those payments would be distributed to the states where the leases are located. The remainder would be deposited in the U.S. Treasury. In addition to expediting commercial leasing of lands for oil shale development, the bill would require the Secretary to offer 10 leases of federal lands for research and demonstration projects related oil shale development.

Bonus Bids for Commercial Leases

CBO estimates that implementing H.R. 3408 would increase net offsetting receipts by $5 million in 2016, because the bill would require DOI to offer leases for the commercial development of oil shale sooner than we expect it would have under current law. CBO also estimates that implementing the bill would reduce net offsetting receipts by $5 million in 2022, because we expect that lands offered for lease in 2016 under the bill would have been offered for lease by 2022 under current law. CBO estimates that expediting commercial lease sales, as required under the bill, would have no significant net impact on the federal budget over the 2012-2022 period.

The commercial leasing program established under the bill would allow companies to pay bonus bids in five equal installments (without interest) over a 5-year period. Because the sale of government property on credit terms is classified as a direct loan under the Federal Credit Reform Act, our estimate of receipts from lease sales represents our best estimate of the present value of any winning bonus bids discounted for the probability that the federal government would not receive the entire bonus bid amount over the installment period.

Estimates of bonus bids for leases to develop oil shale are uncertain. Few companies have acquired leases on state or private lands in the United States for the purpose of developing commercial quantities of oil shale, and limited data is available to indicate the amounts that companies paid to acquire those leases. In addition, several economic, technical, and environmental factors could affect whether companies would pay the current minimum bid amount ($1,000 per acre) to acquire leases of federal lands to develop oil shale over the next decade.

Other Receipts

Under H.R. 3408, CBO estimates that the federal government would collect net receipts from rental payments on commercial leases totaling less than $100,000 a year over the 2016-2022 period. If those leases produce commercial quantities of oil, the federal government would also receive royalty payments; however, based on information from individuals working in the oil shale industry, CBO does not expect that the federal government would receive any significant royalty payments until after 2022. Finally, the federal government would collect fees from entities that apply for leases to conduct oil shale research, development, and demonstration projects, but CBO estimates that those fee collections would be negligible.

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. 3408 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	0	0	-5	0	0	0	0	0	5	-5	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3408 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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