CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 19, 2011

S. 916
Oil and Gas Facilitation Act of 2011

As ordered reported by the Senate Committee on Energy and Natural Resources on July 21, 2011

SUMMARY

S. 916 would authorize appropriations for various oil and gas programs at the Department of the Interior (DOI) and establish policies governing the issuance of certain permits and leases. It also would raise the limit on the amount of debt that the Department of Energy (DOE) may guarantee for a pipeline to transport natural gas from Alaska to the continental United States and direct DOE to submit reports on the volume of petroleum products imported to and exported from Iran. Finally, S. 916 would repeal provisions in the Energy Policy Act of 2005 that increased the quantity of oil and gas eligible for royalty relief under federal leases on the Outer Continental Shelf (OCS).

CBO estimates that enacting S. 916 would reduce direct spending by $10 million over the 2012-2021 period; therefore, pay-as-you-go procedures apply to this bill. In addition, CBO estimates that implementing the bill would have a discretionary cost of $447 million over the 2012-2016 period, assuming appropriation of the authorized amounts. Enacting S. 916 would not affect revenues.

S. 916 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 S. 916 is shown in the following table. The costs of this legislation fall within budget functions 270 (energy), 300 (natural resources and environment), and 950 (undistributed offsetting receipts).

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	0	0	0	0	0	-1	-1	-2	-3	-3	0	-10
Estimated Outlays	0	0	0	0	0	-1	-1	-2	-3	-3	0	-10
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Oil and Gas Inventories												
Authorization Level	100	100	100	100	100	100	50	50	50	50	500	800
Estimated Outlays	5	40	175	100	100	100	90	50	50	50	420	760
Management Activities												
Authorization Level	0	0	0	0	20	20	20	20	20	0	20	100
Estimated Outlays	0	0	0	0	18	20	20	20	20	2	18	100
Interagency Permit Office												
Authorization Level	2	2	2	2	2	2	2	2	2	2	10	20
Estimated Outlays	1	2	2	2	2	2	2	2	2	2	9	19
Total Changes in Discretionary Spending												
Authorization Level	102	102	102	102	122	122	72	72	72	52	530	920
Estimated Outlays	6	42	177	102	120	122	112	72	72	54	447	879

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 916 will be enacted near the end of fiscal year 2011, that the authorized amounts will be appropriated each year, and that outlays will occur at the historical rates for similar activities.

Direct Spending

The Energy Policy Act of 2005 increased the volume of oil and gas eligible for relief from paying the federal royalty on production from OCS leases, subject to market prices and other conditions. It granted a five-year exemption for certain quantities of oil and gas produced from wells located in deep water (water depths of more than 400 meters) and a permanent exemption for specific amounts of natural gas produced from ultradeep gas wells (those deeper than 20,000 feet) in water less than 400 meters deep. CBO estimates that repealing those two provisions would increase offsetting receipts (a credit against direct spending) by about $10 million over the 2012-2021 period. By way of comparison, CBO projects that receipts from OCS leases will total over $100 billion over that 10-year period under current law.

CBO estimates that enacting S. 916 would have a small effect on federal royalties for several reasons. The bill would have no effect on federal receipts from deep-water leases, for example, because the type of relief provided in the 2005 act expired in 2010. The impact on royalties from ultradeep wells would depend on quantities produced from leases issued after the date of enactment and whether the market price of natural gas is above or below the price thresholds used to determine eligibility for an exemption. Based on historical trends, CBO expects that few ultradeep wells would be drilled on new leases because much of the acreage in shallow water has already been leased and the supply of drilling rigs for those technologically advanced projects is limited. Similarly, the probability of firms receiving royalty relief would be relatively low under CBO's baseline projections of future natural gas prices.

Spending Subject to Appropriation

S. 916 would specifically authorize the appropriation of $530 million over the 2012-2016 period and additional amounts for several years after 2016 for DOI to carry out certain activities. The specified amounts include:

- $100 million for each of fiscal years 2012 through 2017 and $50 million for each of fiscal years 2018 through 2022 for comprehensive inventories of oil and gas resources of the OCS, including seismic studies of resources in the Atlantic, Eastern Gulf of Mexico, and Alaska regions;

- $2 million for each of fiscal years 2012 through 2022 for an interagency office that would be responsible for processing permits and leases for the OCS in Alaska; and

- $20 million for each of fiscal years 2016 through 2020 for activities related to managing federal onshore oil and gas resources.

Assuming appropriation of those amounts, CBO estimates that implementing S. 916 would have a discretionary cost of $447 million over the 2012-2016 period, with additional spending occurring in later years.

The above estimate does not include any costs related to provisions that would increase, from $18 billion to $30 billion, the aggregate amount of loans and other debt obligations that DOE could guarantee to support the construction of a pipeline that would transport natural gas from Alaska to the continental United States. While CBO estimates that the subsidy costs of such loan guarantees would be significant—perhaps requiring the appropriation of billions of dollars—CBO expects that the construction of such a pipeline would not occur until after 2016.

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 S. 916, the Oil and Gas Facilitation Act of 2011, as ordered reported by the Senate Committee on Energy and Natural Resources on July 21, 2011

	By Fiscal Year, in Millions of Dollars												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011-2016	2011-2021
	NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	0	0	0	0	0	0	-1	-1	-2	-3	-3	0	-10

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 916 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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