CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 15, 2018

S. 1219
Lake Bistineau Land Title Stability Act

As ordered reported by Senate Committee on Energy and Natural Resources on October 2, 2018

S. 1219 would require the Secretary of the Interior to convey, without consideration, roughly 230 acres of land and associated minerals near Lake Bistineau in northwest Louisiana. Using information from the Bureau of Land Management (BLM), the Energy Information Administration (EIA), the oil and gas industry, the state of Louisiana, and other interested parties, CBO estimates that enacting the bill would reduce offsetting receipts, which are treated as reductions in direct spending, by about $1 million over the 2019-2028 period.

Because enacting S. 1219 would affect direct spending, pay-as-you-go procedures apply. Enacting the bill would not affect revenues.

CBO estimates that enacting S. 1219 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

S. 1219 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

Background

The affected lands were omitted from a federal land survey in 1842. The state of Louisiana subsequently deeded those lands to the Bossier Levee District, which transferred them to private individuals. Following a resurvey of the area published in 1969, BLM determined that the lands, which were then held privately, fell under federal jurisdiction. In recent years, BLM and private titleholders have each claimed ownership of the affected lands and the subsurface mineral estate; however, the private titleholders are not currently pursuing any remedy other than legislation similar to S. 1219.

Royalties from Ongoing Gas Production

The affected lands contain one active natural gas well. The well's operator has suspended royalty payments because of the perceived uncertainty about ownership of the royalty interest. Using information from Louisiana, CBO estimates that the royalties due to the federal government for gas produced from that land total less than $500,000. In addition, CBO estimates that any royalties generated from future production of gas from the existing well would total less than $10,000 over the next 10 years. Under the Mineral Leasing Act, 49 percent of those amounts would be paid to Louisiana. Because of the uncertainty regarding when the lease operator will deem the ownership of the affected minerals resolved and make royalty payments to the federal government, CBO estimates that there is a 50 percent probability that those payments will be made over the next 10 years. Thus, enacting S. 1219, which would result in BLM's disclaiming ownership of the royalty interest, would reduce expected offsetting receipts by less than $125,000 over the 2019-2028 period.

Royalties from New Gas Production

The affected lands make up about one-third of a production unit, which consists of one square mile of land and the associated minerals. Based on information regarding the average number of wells drilled on production units in northwest Louisiana, CBO expects that between three and five additional wells could be drilled on the unit and that each would produce about 4 billion cubic feet of gas, nearly all within the first 10 years. That additional production would only occur if gas prices are high enough to make new production economical.

Using information provided by EIA and individuals working in the oil and gas industry, CBO expects that new drilling will not occur on the affected lands unless gas prices at the wellhead exceed $3.50 per thousand cubic feet (mcf). Under CBO's April 2018 baseline, gas prices are not expected to exceed that amount at any point over the next 10 years. However, CBO's baseline projections of gas prices in each year represent the midpoint of a range of possible prices. CBO estimates that the probability that prices will be high enough to spur new production on the affected lands over the next 10 years ranges from 18 percent to 27 percent in each year and that the average wellhead price under those scenarios would range from $5/mcf to $6/mcf.

Because of the perceived uncertainty concerning the ownership of associated resources, CBO estimates that there is a 50 percent probability that the federal government will receive no royalty payments from new wells over the next 10 years, either because operators would choose not to drill new wells or because they would suspend royalty payments on new production. After accounting for a range of scenarios with different prices and production volumes, CBO estimates that the expected gross federal royalties from new wells on the affected lands would range from $1 million to $2 million over the next 10 years. Of those amounts, 49 percent would be paid to Louisiana. On that basis, CBO estimates that, on net, enacting S. 1219 would reduce offsetting receipts from royalties paid on production from new wells by between $500,000 and $1 million over the 2019-2028 period.

Uncertainty

CBO aims to produce estimates that generally reflect the middle of a range of the most likely budgetary outcomes that would result if the legislation was enacted. In estimating the effects of S. 1219, CBO had to account for two major sources of uncertainty. CBO cannot predict if or when the leaseholder on the affected lands will deem the dispute over ownership of those lands settled, which will determine whether any payments are made to the federal government. CBO also cannot foresee future gas prices with certainty. The price of gas will determine whether additional gas is produced from the affected lands and when that production may occur, which will affect the amount and timing of any royalty payments the leaseholder would make to the federal government. Because of those uncertainties, the budgetary effects of enacting S. 1219 could differ from those provided in CBO's analysis.

Previous Estimate

On June 13, 2018, CBO transmitted a cost estimate for H.R. 3392, the Lake Bistineau Land Title Stability Act, as ordered reported by the House Committee on Natural Resources on April 11, 2018. The two pieces of legislation are similar, and CBO's estimates of their budgetary effects are the same.

The CBO staff contact for this estimate is Janani Shankaran. The estimate was reviewed by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.