CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 7, 2012

H.R. 3410
Energy Security and Transportation Jobs Act

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

SUMMARY

H.R. 3410 would revise existing laws and policies regarding the development of oil and gas resources on the Outer Continental Shelf (OCS). It would repeal statutory restrictions on leasing in the Eastern Gulf of Mexico and direct the Department of the Interior (DOI) to conduct certain lease sales in that area. The bill also would reduce the department's future administrative discretion to schedule OCS auctions and would require that certain auctions be held for leases in the Atlantic, Pacific, and Alaska OCS by 2017. Under this bill, some of the offsetting receipts from leases issued in those areas would be spent, without further appropriation, for payments to states.

CBO estimates that enacting H.R. 3410 would reduce net direct spending by $1.8 billion over the 2012-2022 period. In addition, CBO estimates that implementing the bill would have discretionary costs of $45 million over the 2012-2017 period, assuming appropriation of the necessary amounts. Enacting this bill would not affect revenues. Pay-as-you-go procedures apply because enacting the legislation would reduce direct spending.

H.R. 3410 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. 3410 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						
	2012	2013	2014	2015	2016	2017	2012-2017
CHANGES IN DIRECT SPENDING							
Estimated Budget Authority	0	0	0	-50	-500	-360	-910
Estimated Outlays	0	0	0	-50	-500	-360	-910
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
Estimated Authorization Level	2	15	15	5	5	3	45
Estimated Outlays	1	14	15	7	5	3	45

a. Over the 2012-2022 period , CBO estimates enacting H.R. 3410 would reduce direct spending by $1.8 billion.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3410 will be enacted during 2012. Under the bill, we expect that oil and gas leasing activity would increase in the OCS and that a specified portion of the income from that activity would be paid to affected states. Bonus bids, rental fees, and royalty payments for OCS leases are recorded in the budget as offsetting receipts, which are an offset to direct spending. Because oil and gas production usually occurs several years after a lease is issued, CBO expects that most of the increase in offsetting receipts over the next 10 years would result from bonus bids and rental payments.

Direct Spending

CBO estimates that implementing H.R. 3410 would increase gross offsetting receipts from OCS leasing activity by $2.3 billion over the 2012-2022 period and increase direct spending for payments to states by $0.5 billion over that same period, resulting in a net reduction in direct spending of $1.8 billion over the 2012-2022 period and $910 million over the 2012-2017 period. That estimate is based on information from DOI on the oil and gas resources in the affected regions; historical rates of leasing in those areas; and recent trends in the amount of bonus bids paid for other OCS leases. Although H.R. 3410 would direct DOI to hold certain lease sales within a year of enactment, CBO anticipates that most of the additional proceeds would be collected after 2015 because of the time needed to complete geological, environmental, and other assessments for each sale and to issue leases to winning bidders.

Leasing in the Gulf of Mexico. Nearly half of the estimated increase in gross offsetting receipts from enacting H.R. 3410—about $1.1 billion—would result from repealing the temporary ban imposed by the Gulf of Mexico Security Act of 2006 (GOMESA) on

leasing areas within 125 miles of the coast of Florida and in the eastern Gulf of Mexico. According to DOI, H.R. 3410 would make approximately 4.4 million acres available for leasing as part of the department's annual lease sales in the Central Gulf of Mexico. The bill also would redraw the boundaries of the Eastern Gulf of Mexico planning area for OCS leasing and extend the statutory ban on leasing in that area by three years—from June 30, 2022 to June 30, 2025 —except for a specified number of acres that would be have to be offered in three special auctions.

Most of the estimated increase in receipts from this region would result from leasing acreage that would be added to the Central Gulf of Mexico planning area. According to DOI, that area contains undiscovered resources estimated to total 2 billion barrels of oil equivalent (BOE)—that is, either oil or an equivalent amount of natural gas with the same energy content—as well as additional probable resources that have been identified through prior leasing activity. CBO's estimate of proceeds from leasing activity in this area reflects the fact that most of the resources are natural gas and the possibility that some resources may not be leased because of potential inconsistencies with state coastal zone management plans. Based on the results of lease sales in other newly opened areas in the Gulf of Mexico, CBO estimates that the proceeds from the three special sales in the Eastern Gulf of Mexico would result in receipts totaling about $0.1 billion.[1]

Finally, CBO estimates that provisions in H.R. 3410 directing DOI to conduct certain lease sales in the Central Gulf of Mexico would have no budgetary effect because the proposed schedule is similar to current administrative plans.

Leasing in Other OCS Regions. Apart from GOMESA, there are no statutory restrictions on the location and timing of OCS lease sales. Decisions on where and when to offer leases in the OCS are made administratively according to various statutory criteria and procedures, including consultation with industry and affected states. H.R. 3410 would change the plan for lease sales over the 2012-2017 period and require DOI to auction at least 50 percent of the acreage in all OCS areas in each of the subsequent five-year leasing cycles after 2017. CBO estimates that those changes to current administrative policy and future discretion would increase gross offsetting receipts by $1.2 billion over the 2012-2022 period relative to amounts we expect the government to collect from leasing in those regions under current law.

Leasing in the Atlantic and Pacific OCS. H.R. 3410 would primarily affect the schedule for future auctions of leases in the Atlantic and Pacific OCS. Estimates of potential proceeds from those areas are uncertain for several reasons. Because there has been no leasing activity in the Atlantic or Pacific OCS for more than 25 years, there are no data on bidders' assessments of the value of those resources relative to alternative investments in domestic onshore resources, other OCS regions, or international prospects. Other factors that could

1. Auctions of leases located in the "181-south" area of the Gulf of Mexico, which contains an estimated 900 million BOE, have yielded federal receipts of only $8 million since lease sales started in 2009.

affect bidder interest include the absence of pipelines and onshore processing facilities in key areas and past litigation regarding oil and gas development, which resulted in the cancellation of some federal leases in both regions. In addition, some resources in these regions may be excluded from future auctions because leasing may not be compatible with state coastal zone management plans.

Taking into account such uncertainties and the lead times for initiating sales in new areas, CBO estimates that auctioning leases in the Atlantic and Pacific OCS would generate offsetting receipts of about $1.9 billion over the 2012-2022 period under the bill.[2] However, CBO expects a portion of that amount will be collected under current law. CBO's current baseline projection of future OCS receipts from the Atlantic and Pacific OCS is $0.7 billion over the next 10 years. CBO's baseline estimate is less than the amount we estimate from enacting H.R. 3410 for two reasons. First, DOI's proposed leasing plan for 2012 through 2017 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.[3]

By revising the five-year plan for the 2012-2017 period to include lease sales in the Atlantic and Pacific OCS and increasing the certainty that additional sales will be held thereafter, CBO estimates that enacting H.R. 3410 would increase offsetting receipts by $1.2 billion over the 2012-2022 period above the amounts expected under current law. About 40 percent of that total would be collected over the next five years, reflecting directives in the bill for DOI to auction at least 50 percent of the acreage in the North Atlantic, Mid-Atlantic, and Southern California regions and to conduct two specific sales: one off the coast of Virginia and another for leases in the Santa Barbara and Ventura basins in the California OCS that can be developed by using existing offshore facilities or from onshore drilling sites.

Leasing in the Alaska OCS. H.R. 3410 also would revise the Administration's 2012-2017 leasing plan by directing DOI to auction certain acreage in the North Aleutian Basin in Alaska. That OCS region is not included in the proposed leasing plan for 2012-2017

---

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 already available to be leased. The estimate also assumes that the pace of leasing will be consistent with past trends for areas with undiscovered resources that are geologically dispersed over large areas. Finally, based on a 2011 report sponsored by the American Petroleum Institute, CBO assumes that the amounts paid by bidders per BOE for resources in the Atlantic and Pacific would be about half the amounts paid for resources in the Alaska National Wildlife Refuge or the Eastern Gulf of Mexico.

3. For example, a draft OCS leasing plan submitted by the administration of President George W. Bush in January, 2009 proposed holding lease sales in the Atlantic and Pacific OCS, notwithstanding the objections of certain states; by contrast, the November, 2011 draft plan submitted by the administration of President Barack Obama cited state concerns as the reason for excluding the California and North Atlantic OCS from the proposed five-year plan.

because the President withdrew the Bristol Bay area from consideration through 2017. Estimates of bidder valuations and interest in such leases are uncertain because the firms that won leases in this region in the 1980s relinquished them as a result of litigation. For this estimate, CBO assumes that bonus bids could range from a few million dollars to about $100 million, which would be roughly proportionate to the prices recently paid for resources in the Chukchi Sea. CBO estimates that gross proceeds from enacting this provision would fall in the mid-point of this range—or about $50 million.

Receipt Sharing. H.R. 3410 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 of the current contours of the Central and Western Gulf of Mexico. Those states would receive a 12.5 percent share of the gross proceeds from eligible leases issued under the five-year plan that takes effect after the date of enactment; 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. 3410 would increase direct spending by $0.5 billion over the 2012-2022 period.

CBO expects that the receipt sharing provision in H.R. 3410 would apply to leases issued in the Atlantic and Pacific OCS, in the North Aleutian basin by 2017, and in areas currently subject to GOMESA through June 30, 2022. For this estimate, CBO assumes that the initial 12.5 percent rate would apply to eligible leases issued over the 2012-2017 period and that funds would be disbursed to states the year after receipts are collected from lessees. CBO also expects that this spending would be recorded in the budget as a reduction in offsetting receipts.

Spending Subject to Appropriation

Based on spending patterns for similar activities, CBO estimates that DOI would spend about $45 million over the 2012-2017 period to complete pre-auction assessments and conduct lease sales in the Atlantic, Pacific, Alaska, and Florida OCS, assuming appropriation of the necessary amounts.

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. 3410, 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	2012-2022
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	0	0	0	-50	-500	-360	-300	-120	-150	-150	-150	-1,780

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3410 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On May 2, 2011, CBO transmitted a cost estimate for H.R. 1231, the Reversing President Obama's Offshore Moratorium Act, as ordered reported by the House Committee on Natural Resources on April 13, 2011. Differences between the estimates largely reflect provisions in H.R. 3410 regarding the eastern Gulf of Mexico and revenue sharing with states, which were not included in H.R. 1231.

ESTIMATE PREPARED BY:

Federal Costs: Kathleen Gramp
Impact on State, Local, and Tribal Governments: Melissa Merrill
Impact on the Private Sector: Amy Petz

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis