CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 6, 2012

H.R. 4480
Strategic Energy Production Act of 2012

As ordered reported by the House Committee on Energy and Commerce on May 17, 2012

SUMMARY

H.R. 4480 would direct the Department of Energy (DOE) to develop a plan to increase the amount of acreage leased for oil and gas development on federal lands if the department sells oil from the Strategic Petroleum Reserve (SPR). DOE would be required to develop that plan within 180 days after the first sale of oil from the SPR that occurs after the bill is enacted, with a goal of increasing the acreage under lease by the percentage change in the size of the SPR resulting from the sale. This one-time plan would be developed in consultation with certain federal and nonfederal entities and would be implemented by agencies responsible for managing federal lands, including the Departments of the Interior (DOI), Agriculture, and Defense. We estimate that implementing the bill would have negligible discretionary costs over the 2013-2017 period.

Pay-as-you-go procedures apply to this legislation because it could affect offsetting receipts from oil and gas leasing, which are recorded as a credit against direct spending. CBO estimates, however, that the net effect on direct spending would be insignificant over the 2013-2022 period. Enacting H.R. 4480 would not affect revenues.

H.R. 4480 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

CBO estimates that enacting H.R. 4480 would not have a significant impact on net direct spending.

For this estimate, CBO assumes that H.R. 4480 will be enacted by the end of 2012 and that the necessary amounts to implement it will be appropriated. Since 1985, DOE has sold oil from the SPR on eight occasions; three of those sales were triggered by international events (in 1990, 1991, and 2011), three by Congressional directives (all in 1996), one by a hurricane (in 2005), and one sale was implemented to test systems and procedures (in 1985). Past sales have involved relatively small volumes of oil, ranging from less than 1 percent to about 4 percent of the oil in the SPR, or an average of about 2 percent per sale. Proceeds from those sales—which are used to replenish stocks in the reserve—have ranged from less than $50 million to $3.2 billion.

Based on past trends, CBO expects there is a chance that another sale will occur over the 2013-2022 period under current law. In that case, H.R. 4480 would require DOE to complete a plan to increase the amount of federal land leased for oil and gas development. The timing of any future sales and when the report would be prepared are uncertain, however.

Direct Spending

Under this bill, DOI would be required to implement any recommendations in the plan developed by DOE.[1] CBO estimates that enacting H.R. 4480 would have no significant net effect on offsetting receipts from federal leasing activity over the 2013-2022 period.

Several factors would limit the impact of DOE's plan on federal leasing activity. For example, the legislation would not repeal the current statutory prohibition on leasing in the Arctic National Wildlife Refuge and national parks or the temporary ban on leasing in the Outer Continental Shelf (OCS) in the Eastern Gulf of Mexico. Similarly, the plan developed under H.R. 4480 would not supersede other policies in existing law that affect federal leasing activity, such as requirements that development be consistent with state coastal zone management plans, preserve antiquities, and protect certain environmentally sensitive areas. CBO assumes that DOI would implement DOE's plan in a manner consistent with the statutory and administrative policies in effect at the time the plan is developed.

In addition, there is no single benchmark for measuring changes in future leasing activity because of policy considerations and fluctuations in market conditions. Under current law, within areas open for such activities, private firms nominate onshore parcels believed to have economic value, and the relevant agencies prepare to offer most of those lands for lease. DOI routinely offers leases for virtually all of the acreage in the most geologically promising regions of the OCS—the Central and Western Gulf of Mexico and Chukchi and Beaufort Seas. Decisions about leasing in most other areas of the Alaska OCS largely depend on the recommendations of potential bidders. Administrations have taken different positions on whether to offer leases off the California and Atlantic coasts, taking into account the resource development policies of the affected states. Ultimately, the amount of

1. The Bureau of Land Management acts as the leasing agent for mineral rights on all onshore federal lands, including those administered by the Department of Agriculture and the Department of Defense and would implement any recommendations in the DOE plan that affect those lands. The Bureau of Ocean Energy Management is the leasing agent for all OCS lands.

additional acreage leased would depend on decisions made by private firms in light of both federal and state policies.

CBO expects that DOI's primary option for increasing leasing under this bill would be to offer acreage that was not nominated by industry. That approach would allow DOI to comply with the plan without changing other administrative policies that prevent leasing off the Pacific or Atlantic coasts and in other sensitive areas. Even if a future Administration opens areas currently not available for leasing, offering such acreage may be the only option to implement a DOE report because there would be no other alternatives to increasing the acreage offered.

CBO estimates offering such areas for leasing would have a negligible effect on offsetting receipts because, by choosing not to nominate or recommend the areas or parcels for leasing, firms indicate that they believe those prospects have little economic value.

Spending Subject to Appropriation

CBO estimates that implementing this bill would have a negligible impact on spending subject to appropriation over the 2013-2017 period. Based on the cost of similar studies, developing the plan required by H.R. 4480 would cost about $1 million. However, those expenditures are uncertain and would depend on SPR oil sales that may or may not occur in the next five years. CBO also estimates that implementing the bill would have no significant impact on DOI's administrative expenses, assuming any DOE recommendations are implemented through the department's routine planning processes.

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. CBO estimates that enacting H.R. 4480 would not have a significant impact on net direct spending over either the 2012-2017 period or the 2012-2022 period. Enacting the bill would not affect revenues.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4480 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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