CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 9, 2011

S. 275
Pipeline Transportation Safety Improvement Act of 2011

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on May 5, 2011

SUMMARY

The Pipeline and Hazardous Materials Safety Administration (PHMSA) oversees the safety of pipelines that transport gas or hazardous liquids and provides grants to states for programs to ensure pipeline safety. For those activities, S. 275 would authorize the gross appropriation of $420 million over the 2012-2016 period. CBO expects that about $365 million of those appropriations would be offset by fees paid by pipeline operators over the three-year period. In addition, subject to provisions in appropriation acts, CBO estimates that the bill would authorize PHMSA to collect and spend about $10 million over the 2012-2016 period to recover its costs of conducting safety reviews at a pipeline project in the state of Alaska. Altogether, CBO estimates that implementing S. 275 would have a net cost of $46 million over the 2012-2016 period, assuming appropriation of the necessary amounts.

Pay-as-you-go procedures apply because enacting the legislation could affect revenues. S. 275 would increase certain civil penalties for violating pipeline safety regulations. Civil penalties are recorded in the budget as revenues and deposited in the general fund of the Treasury. However, CBO estimates that any increase in civil penalties would be small and would have no significant effect on the federal budget. Enacting the bill would not affect direct spending.

S. 275 contains intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) because it would impose new requirements on both public and private operators of natural gas pipelines. The bill would impose additional private-sector mandates on operators of hazardous liquid pipelines. Because of the relatively small number of public entities affected, CBO estimates that the aggregate cost of intergovernmental mandates in the bill would fall below the annual threshold established in UMRA ($71 million in 2011, adjusted annually for inflation). Based on information from PHMSA and industry sources, CBO estimates that the aggregate cost of the private-sector mandates would exceed the annual threshold established in UMRA ($142 million in 2011, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 275 is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Year, in Millions of Dollars					
	2012	2013	2014	2015	2016	2012-2016
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Spending for Pipeline Safety						
Estimated Authorization Level	133	138	141	3	5	420
Estimated Outlays	65	117	134	72	23	411
Offsetting Collections for User Fees and Alaska Pipeline Design Review						
Estimated Authorization Level	-114	-120	-123	-3	-5	-365
Estimated Outlays	-114	-120	-123	-3	-5	-365
Estimated Net Spending						
Estimated Authorization Level	19	18	18	0	0	55
Estimated Outlays	-49	-3	11	69	18	46

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 275 will be enacted before the end of fiscal year 2011 and that the specified and necessary amounts authorized over the 2012-2016 period will be appropriated each year. Estimates of spending are based on historical spending patterns for pipeline safety programs.

Spending Subject to Appropriation

Spending for Pipeline Safety. S. 275 would reauthorize the laws that govern PHMSA's role in pipeline safety. The bill would authorize the appropriation of $420 million for PHMSA's pipeline safety activities over the 2012-2016 period, CBO estimates. (In 2011, PHMSA's gross appropriation for pipeline safety was $106 million.) S. 275 would authorize PHMSA to hire 39 new employees to analyze and inspect pipelines over the 2012-2014 period. The bill also would require PHMSA to complete a number of studies, update certain standards, and issue new regulations on pipeline safety more quickly than under current law. CBO estimates that implementing those provisions would cost $411 million over the 2012-2016 period, assuming appropriation of the specified and necessary amounts.

Offsetting Collections for User Fees and Alaska Pipeline Design Review. Under provisions of the bill, CBO estimates that PHMSA would collect $365 million in user fees over the 2012-2016 period. Those amounts include user fees authorized under current law and are based on the appropriated level of funding and new fees for PHMSA activities related to the review of a large pipeline project in Alaska.

Revenues

S. 275 would increase the maximum penalties PHMSA may impose for certain violations of safety regulations that cause serious environmental damage or result in serious injuries or death. The bill also would permit new penalties to be imposed for obstructing inspections or investigations by PHMSA. Based on PHMSA's past penalty collections, CBO estimates that those provisions would result in increased revenue of less than $500,000 over the 2012-2021 period.

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. Enacting S. 275 would have a negligible effect on revenues.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 275 would impose mandates on public and private entities that operate natural gas pipelines and additional private-sector mandates on operators of hazardous liquid pipelines. Because of the relatively small number of public entities affected, CBO estimates that the aggregate cost of intergovernmental mandates in the bill would fall below the annual threshold established in UMRA ($71 million in 2011, adjusted annually for inflation); we estimate that the aggregate cost of the private-sector mandates in the bill would exceed the annual threshold established in UMRA ($142 million in 2011, adjusted annually for inflation).

Mandates that Apply to Both Public and Private Entities

Operating Pressure. The bill would require operators of transmission pipelines for natural gas in areas at risk of significant damage from spills to confirm safe operating pressures for pipelines. The mandate would require such operators to ensure they have accurate records, test pipelines for which records are not sufficient, and report when pressure exceeds acceptable limits. According to PHMSA, about 24,000 to 30,000 miles of transmission pipelines are in affected areas. Published estimates indicate that the cost of testing pipelines could range from $150,000 to $500,000 per mile; according to industry sources, approximately 20 percent of pipelines in areas at risk of significant damage from spills might require testing. Based on that information, CBO expects that compliance cost to pipeline operators in the private sector could total several hundred million dollars or more annually in the first two years the mandate is in effect. Because public entities operate a relatively small fraction of transmission pipelines for natural gas, CBO estimates the cost to state and local governments would total less than $20 million annually in the first two years after the mandate takes effect.

Integrity Management. S. 275 would extend existing planning, testing, and safety requirements to additional pipelines. CBO cannot determine the costs of the mandates for private-sector entities because they would depend on future regulations. However, based on information from PHMSA and industry sources about the cost to comply with existing standards, the cost of imposing such standards on additional pipelines could be significant. Because of the relatively small number of public entities affected, CBO estimates the cost to state and local governments would be small.

Shut-Off Valves. The bill would impose a mandate on operators of transmission pipelines by requiring them to install shut-off valves in new or entirely replaced transmission pipelines. According to industry sources, such valves currently cost $100,000 to $500,000 per valve depending on the size of the pipeline. The number of valves to be installed would depend on the spacing required between valves and areas where operators would have to install them. Because such requirements would be developed as part of future regulations, CBO has no basis for determining the cost of the mandate to private-sector entities. Because of the relatively small number of public entities affected, CBO estimates the cost to state and local governments would be small.

Reporting Requirements. The bill would require pipeline operators to report additional information to PHMSA. Industry sources indicate the cost of the mandate to private entities would be in the tens of millions of dollars. Based on information from industry sources, CBO estimates the cost of the mandate to publicly owned pipeline operators could be significant because many such operators are small and lack resources to comply with the new reporting requirements. However, CBO estimates the costs to state and local governments would total less than $15 million annually.

Excess Flow Valves. S. 275 would require operators of distribution pipelines for natural gas to install valves designed to prevent natural gas leakage in areas to be determined by PHMSA. According to industry sources, each valve would add about $30 to the cost of installation and approximately 200,000 installations per year could require such valves. While the total cost of the mandate would depend on the number of units PHMSA would require to have such valves, CBO estimates that those costs would be relatively small.

Notification Requirements. The bill would require pipeline operators to notify state and local governments and emergency responders of accidents or incidents within specified time limits. CBO estimates that the cost of the mandate to public and private entities would be minimal.

Mandates that Apply to Private Entities Only

Leak Detection. The bill would impose a mandate by requiring the operators of hazardous liquid pipelines, such as oil pipelines, to use leak detection technologies where feasible. Under the bill, PHMSA would designate pipelines from a total of 176,000 miles of pipeline. Because the cost of the mandate would depend on such future PHMSA regulations, CBO has no basis for determining the cost of this mandate.

Oil Flow Lines. S. 275 could impose a mandate on pipeline operators that transport oil by allowing PHMSA to collect additional data. Because CBO does not know what information PHMSA would require operators to report, we have no basis for determining the cost of the mandate.

Offshore Gathering Pipelines. S. 275 would impose a mandate by requiring the operators of pipelines used to gather hazardous liquids to follow additional safety requirements. According to industry sources, the mandate would apply to about 5,000 miles of pipeline. Because the cost of the mandate would depend on future PHMSA regulations, CBO has no basis for determining the cost of the mandate.

Fees. The bill would authorize PHMSA to collect new fees on construction projects that are large or use new technology. Based on information from PHMSA on the expenses it would incur because of the bill, CBO estimates that PHMSA would charge an average of $120 million in additional fees per year to pipeline operators over the 2012-2014 period as a result of enactment of the bill.

Other Requirements. The bill would impose several other new requirements on pipeline operators. Specifically, the bill would impose additional safety requirements on pipelines transporting biofuels; require PHMSA to regularly review waivers on safety requirements it provides to pipeline operators; and impose minimum safety standards for pipelines transporting carbon dioxide in a gaseous state. Based on information from industry sources and PHMSA, CBO estimates that the cost of each of those mandates would fall well below the annual threshold established in UMRA.

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