CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 27, 2016

H.R. 4937
PIPES Act of 2016

As ordered reported by the House Committee on Transportation and Infrastructure on April 20, 2016

SUMMARY

The Pipeline and Hazardous Materials Safety Administration (PHMSA) oversees the safety of pipelines that transport natural gas or hazardous liquids and provides grants to states for programs to ensure pipeline safety. H.R. 4937 would require PHMSA to pursue a variety of regulatory and administrative activities related to such programs and would authorize appropriations for those purposes. The bill also would authorize PHMSA to establish safety standards for certain underground storage facilities for natural gas, assess fees on entities that operate such facilities, and spend such fees—subject to authority provided in advance in appropriation acts—to ensure that such facilities meet those standards.

CBO estimates that implementing H.R. 4937 would result in gross appropriations totaling $529 million over the 2017-2021 period. CBO also estimates that those appropriations would be offset by $410 million in fees paid by pipeline owners, which would be considered offsets to discretionary spending. Assuming appropriation actions consistent with the specified and estimated amounts, CBO estimates that the resulting net outlays would total $113 million over the 2017-2021 period.

In addition, CBO estimates that enacting H.R. 4937 would increase net revenues from assessments on entities that operate certain underground storage facilities by $17 million over the 2017-2026 period. Pay-as-you-go procedures apply because enacting the legislation would affect revenues. Enacting H.R. 4937 would not affect direct spending.

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

H.R. 4937 would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) by establishing new safety standards for natural gas storage facilities and pipelines and by imposing new fees. Based on information from PHMSA and industry sources, CBO estimates that the cost of the mandates on public

entities would fall below the annual threshold established in UMRA for intergovernmental mandates ($77 million, adjusted annually for inflation). Primarily because one of the mandates on private entities would depend on future actions by the Secretary of Transportation, CBO cannot determine whether the aggregate cost of the mandates on private entities would exceed the annual threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 4937 is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Year, in Millions of Dollars					
	2017	2018	2019	2020	2021	2017-2021
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION						
Spending for Pipeline Safety and Related Activities						
Estimated Authorization Level	151	154	157	0	0	462
Estimated Outlays	74	131	149	80	22	456
Offsetting Collections from User Fees						
Estimated Authorization Level	-134	-138	-138	0	0	-410
Estimated Outlays	-134	-138	-138	0	0	-410
PHMSA Operational Expenses						
Authorization Level	22	22	23	0	0	67
Estimated Outlays	15	20	23	7	2	67
Total Changes						
Estimated Authorization Level	39	38	42	0	0	119
Estimated Outlays	-45	13	34	87	24	113
INCREASES IN REVENUES [a]						
Assessments for Underground Natural Gas Storage Facilities	0	0	2	2	2	7

Notes: PHMSA = Pipeline and Hazardous Materials Safety Administration; Components may not sum to totals because of rounding.

a. CBO estimates that enacting H.R. 4937 would increase net revenues by $17 million over the 2019-2026 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4937 will be enacted near the start of fiscal year 2017 and the amounts authorized and estimated to be necessary over the 2017-2021 period will be appropriated each year. Estimates of outlays are based on historical spending patterns for pipeline safety programs.

Spending Subject to Appropriation

H.R. 4937 would reauthorize the laws that govern PHMSA's role in pipeline safety and authorize appropriations for those activities as well as for the agency's general operating expenses. The bill would specify new administrative requirements and authorize the agency to establish and enforce safety standards for certain underground storage facilities for natural gas. The bill also would require the Government Accountability Office (GAO) and other agencies to conduct a variety of studies and reports related to pipeline safety and other activities.

The bill would authorize appropriations totaling $172 million in 2017 and $528 million over the 2017-2021 period; additional amounts would be necessary for required reports. (In addition, the bill would authorize appropriations totaling $168 million in 2016, the same amount that has already been provided for that year.) The authorized and estimated amounts include:

- $461 million specifically authorized for PHMSA's pipeline safety programs;
- $67 million specifically authorized for operating expenses of support organizations within PHMSA; and
- $1 million estimated to be necessary for GAO and other agencies to carry out various reporting and administrative requirements.

Assuming appropriation of the authorized and estimated amounts, CBO estimates that resulting discretionary outlays would total $523 million over the 2017-2021 period and $6 million in later years. CBO also estimates that those outlays would be offset by $410 million in fees paid by entities that operate pipelines and related facilities regulated by PHMSA. Under current law, such annual fees are based on appropriations provided for pipeline safety and related activities and are recorded in the budget as discretionary offsetting collections.

Revenues

H.R. 4937 would authorize PHMSA to regulate the safety of certain underground storage facilities for natural gas. To cover the cost of regulating such facilities, the bill would direct the Secretary of Transportation to impose fees on entities that operate such facilities. In CBO's view, such regulatory fees should be recorded as revenues because of their compulsory nature. Under the bill, PHMSA's authority to spend those fees would be subject to appropriation.

Based on information from PHMSA and the natural gas industry about the anticipated costs to establish and implement the proposed safety standards, CBO estimates gross revenues from such fees would total about $3 million annually, starting in 2019 (the year when CBO expects PHMSA would issue regulations as required by the bill) and $24 million through 2026. Because excise taxes and other indirect business taxes (such as the proposed assessment under H.R. 4937) reduce the base used for calculating income and payroll taxes, higher amounts of those indirect business taxes would lead to reductions in revenues from income and payroll taxes. As a result, gross assessments would be partially offset by a loss of receipts of about 25 percent each year. Thus, CBO estimates that enacting H.R. 4937 would increase net revenues by $17 million over the 2019-2026 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. The net changes in revenues 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. 4937, as ordered reported by the House Committee on Transportation and Infrastructure on April 20, 2016

	By Fiscal Year, in Millions of Dollars												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2021	2016-2026
NET DECREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	0	-2	-2	-2	-2	-2	-2	-2	-2	-7	-17

Note: Components may not sum to totals because of rounding.

INCREASE IN LONG TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 4937 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4937 would impose intergovernmental and private-sector mandates as defined in UMRA by establishing new safety standards for natural gas storage facilities and pipelines and by imposing new fees. Based on information from PHMSA and industry sources, CBO estimates that the cost of the mandates on public entities would fall below the annual threshold established in UMRA for intergovernmental mandates ($77 million, adjusted annually for inflation). Primarily because one of the mandates on private entities would depend on future actions by the Secretary of Transportation, CBO cannot determine whether the aggregate cost of the mandates on private entities would exceed the annual threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted annually for inflation).

Mandates that Apply to Both Public and Private Entities

Standards and Fees for Underground Natural Gas Storage Facilities. The bill would impose a mandate on operators of underground natural gas storage facilities by establishing new safety standards for those facilities. According to the Department of Energy, there are about 400 such facilities in the United States, and the majority of them are operated by private entities. Organizations representing gas pipeline companies recently adopted voluntary standards for ensuring the safety and integrity of natural gas storage facilities. CBO estimates that the incremental cost of the mandate would be minimal for facilities that are currently working to comply with those industry standards. However, based on information from industry sources, CBO estimates that the aggregate cost of the mandate on all facilities could total tens of millions of dollars annually.

The bill also would impose a mandate on operators of underground natural gas storage facilities by requiring those operators to pay fees to the Secretary of Transportation. The fees would be used to offset the cost of establishing and implementing the safety standards for those facilities. CBO estimates that those fees would total $3 million annually beginning in 2019.

Emergency Orders. The bill would authorize the Secretary of Transportation to issue emergency orders to address imminent hazards at gas and hazardous liquid pipeline facilities. Those orders would require owners and operators of the facilities to comply with emergency restrictions, prohibitions, and safety measures. The cost of the mandate would depend on the nature and scope of emergency orders issued by the Secretary of

Transportation. While there is uncertainty surrounding the potential scope and frequency of such orders, the Secretary of Transportation has issued few emergency orders in recent years tied to the transport of hazardous materials. We expect emergency orders resulting from the bill's provisions to be similarly restrained, but they could result in significant costs to private entities, depending on the nature of the event and the resulting order. Because few pipelines are owned by public entities, CBO expects that the potential costs on state, local, or tribal entities of complying with future emergency orders would be small.

Safety Data Sheets. The bill would require each owner or operator of a pipeline facility for hazardous liquids, following an accident or incident, to provide safety data sheets on any spilled oil to the appropriate federal and state officials. CBO estimates that the cost of transmitting information to governmental officials would be small.

Oil Spill Response Plans. The bill would require operators of pipelines that contain hazardous liquids to consider the effects of oil discharges into navigable waters that contain ice and areas adjoining those waters when they prepare response plans for oil spills. Operators of oil pipelines must prepare and periodically update response plans pursuant to current law. The cost of the mandate would depend on whether operators need to amend current plans to address discharges onto ice. CBO anticipates that pipeline operators could amend any plans at the next scheduled update. Consequently, CBO estimates that the cost of the mandate would not be significant.

Mandate That Applies to Public Entities

The bill would preempt any existing state standards regulating underground storage facilities for natural gas that are less stringent than the new federal standards that PHMSA would be authorized to promulgate. Because preemptions limit the authority of state and local governments, they are considered intergovernmental mandates under UMRA. However, CBO estimates that the preemption would impose no duty that would result in additional spending or a loss of revenues by state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On February 23, 2016, CBO transmitted a cost estimate for S. 2276, the SAFE PIPES Act, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on December 9, 2015. S. 2276 also would reauthorize PHMSA's activities related to pipeline safety. Differences in our estimates of spending subject to appropriation under H.R. 4937 and S. 2276 reflect differences in the scope of activities and the amount of appropriations authorized under the two bills.

In addition, both H.R. 4937 and S. 2276 would authorize PHMSA to regulate certain underground natural gas storage facilities and assess fees for that purpose. Our estimate of increased net revenues from such fees is the same under both bills.

H.R. 4937 contains the same mandates identified by CBO in S. 2276 plus two additional mandates: a requirement to comply with emergency orders and a requirement to provide safety data sheets. Because the additional requirement in H.R. 4937 to comply with emergency orders would depend on future actions by the Secretary of Transportation, CBO cannot determine whether the aggregate costs of the mandates would exceed the threshold for private sector entities in this bill. The threshold determination for intergovernmental mandates is the same for both bills.

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