CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 3, 2016

H.R. 5050
Pipeline Safety Act of 2016

As ordered reported by the House Committee on Energy and Commerce on April 27, 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. 5050 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. 5050 would result in gross appropriations totaling $900 million over the 2017-2021 period. CBO also estimates that those appropriations would be offset by $696 million in fees paid by pipeline owners, which are considered offsets to discretionary spending. Assuming appropriation actions consistent with the specified and estimated amounts, CBO estimates that the resulting net outlays would total $83 million over the 2017-2021 period.

In addition, CBO estimates that enacting H.R. 5050 would increase net revenues from assessments on entities that operate certain underground natural gas 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. 5050 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. 5050 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. 5050 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	150	154	157	160	165	786
Estimated Outlays	74	131	149	158	162	674
Offsetting Collections from User Fees						
Estimated Authorization Level	-134	-138	-138	-141	-145	-696
Estimated Outlays	-134	-138	-138	-141	-145	-696
PHMSA Operational Expenses						
Authorization Level	22	22	23	23	24	114
Estimated Outlays	15	20	23	23	24	105
Total Net Changes						
Estimated Authorization Level	38	38	42	42	44	204
Estimated Outlays	-45	13	34	40	41	83
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. 5050 would increase net revenues by $17 million over the 2019-2026 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5050 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. 5050 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 for PHMSA totaling $172 million in 2017 and $900 million over the 2017-2021 period; additional amounts would be necessary for agencies other than PHMSA to complete 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:

- $786 million specifically authorized for PHMSA's pipeline safety programs;
- $114 million specifically authorized for operating expenses of support organizations within PHMSA; and
- Less than $500,000 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 $779 million over the 2017-2021 period and $121 million in later years. CBO also estimates that those outlays would be offset by $696 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 as discretionary offsetting collections.

Revenues

H.R. 5050 would authorize PHMSA to regulate the safety of certain underground natural gas storage facilities. 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. 5050) 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. 5050 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. 5050, as ordered reported by the House Committee on Energy and Commerce on April 27, 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. 5050 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. 5050 would impose intergovernmental and private-sector mandates as defined in UMRA by establishing new safety standards for storage facilities for natural gas 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 storage facilities for natural gas 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 the facilities are operated by private entities. Organizations representing gas pipeline companies recently adopted voluntary standards for ensuring the safety and integrity of storage facilities for natural gas. 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 storage facilities for natural gas 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 those 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.

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. The bill would impose a mandate if operators need to amend current plans to address discharges onto ice. The bill also would impose a mandate by requiring pipeline operators that contract for oil spill response resources to provide a list of those resources in their response plans. Operators of oil pipelines must prepare and periodically update response plans pursuant to current law, and CBO anticipates that pipeline operators could amend plans at the next scheduled update. Consequently, CBO estimates that the incremental cost of the mandates would not be significant.

Mandate That Applies to Private Entities Only

The bill would require certain onshore pipelines that cross water to increase the frequency of pipeline integrity assessments. Based on information from industry sources, CBO expects that the mandate would apply to one pipeline and estimates that the cost of conducting additional inspections would not exceed $1 million over the first five years that the mandate is in effect.

PREVIOUS CBO ESTIMATE

CBO has issued two other cost estimates for legislation that would reauthorize PHMSA's activities related to pipeline safety:

- 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; and

- On May 27, 2016, CBO transmitted a cost estimate for H.R. 4937, the PIPES Act of 2016, as ordered reported by the House Committee on Transportation and Infrastructure on April 20, 2016.

Our estimate of spending subject to appropriation under H.R. 5050 is larger than our estimates of such spending under S. 2276 and H.R. 4937 primarily because H.R. 5050 would authorize funding through 2021 while the other bills would authorize appropriations only through 2019.

In addition, all three bills 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 each bill.

H.R. 5050 contains most of the mandates identified by CBO in H.R. 4937, including a requirement to comply with emergency orders, and all of the mandates identified by CBO in S. 2276. The threshold determinations for H.R. 5050 and H.R. 4937 are the same. The threshold determination for private-sector mandates is different for S. 2276 because S. 2276 does not contain the mandate that would require private entities to comply with emergency orders issued by the Secretary of Transportation.

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