CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 13, 2018

S. 1337
Capitalizing on American Storage Potential Act

As reported by the Senate Committee on Energy and Natural Resources on May 22, 2018

SUMMARY

Under title 17 of the Energy Policy Act of 2005, the Department of Energy (DOE) is authorized to guarantee loans for a wide range of energy projects that use advanced technologies to reduce greenhouse gases. S. 1337 would expand eligibility for those loan guarantees to include strategic energy infrastructure projects that would serve regional needs and make energy markets more effective because of their scale.

CBO estimates that enacting S. 1337 would increase net direct spending by $2 million over the 2019-2028 period. CBO expects that those amounts would otherwise be spent after 2029. CBO estimates that implementing the bill would have no significant net effect on spending from appropriations because most of the administrative costs of using loan guarantees would be offset by income from fees. Because the bill would affect direct spending, pay-as-you-go procedures apply. Enacting the bill would not affect revenues.

CBO estimates that enacting S. 1337 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

S. 1337 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 1337 will be enacted near the end of 2018 and that spending will follow historical patterns.

Direct Spending

DOE currently has about $26 billion in unobligated commitment authority that was provided in prior appropriation acts for loan guarantees under the title 17 program. Of that total, $15.5 billion is available for non-nuclear projects. CBO does not anticipate that all of the commitment authority for such projects will be used over the 2019-2028 period; therefore CBO estimates that some of it could be used for strategic energy infrastructure projects authorized under S. 1337.

For this estimate, CBO anticipates that DOE would solicit applications for those newly eligible projects starting in 2019 and would receive at least 10 applications over the 2019-2028 period. (That estimate excludes the hydrocarbon storage project cited in the bill, which has already been deemed eligible to apply for a $1.9 billion loan guarantee as a fossil energy facility.) DOE's 2016 Quadrennial Energy Review suggests that a wide range of large projects—including ports, pipelines, storage, and rail facilities—may be classified as strategic infrastructure. Based on historical trends for the title 17 program, CBO estimates that the cost of each potential project would average about $1 billion, and that about 2 percent of the applicants would enter into a final loan guarantee agreement. Thus, CBO estimates that implementing S. 1337 would increase the volume of loan guarantees issued under the title 17 program by $200 million over the 2019-2028 period.

CBO estimates that issuing loan guarantees for projects authorized by the bill would increase direct spending because of the way the title 17 program is financed. Under the terms of past appropriation acts, the subsidy cost of most loan guarantees must be paid by the borrower. For a number of reasons, CBO has concluded that it would be difficult to set the fee so as to entirely cover the estimated cost to the government and has therefore estimated that the fees charged to borrowers would be at least 1 percent lower than the likely cost of the guarantees.[1] Consequently, when appropriation acts authorize DOE to guarantee loans under title 17, CBO estimates a cost equal to 1 percent of the value of guarantee commitments authorized by those acts. Thus, CBO estimates that implementing the bill would increase direct spending by $2 million over the 2019-2028 period.

1. As explained in CBO's 2007 cost estimate for S. 1321, setting the fee accurately is difficult because there is a large degree of uncertainty about the cost of innovative projects. In addition, requiring the borrower to pay the subsidy costs shifts most of the risk back to the project, which may limit how large the fee can be. Borrowers also may turn down a guarantee if they believe DOE's fee is too high but may go forward if they consider it too low, increasing the likelihood that DOE's portfolio will include more projects for which the subsidy fee has been underestimated than overestimated.

Spending Subject to Appropriation

CBO estimates that administrative cost to implement the bill would have no significant net effect on spending subject to appropriation over the 2019-2023 period. Based on historical trends for the title 17 program, CBO estimates that DOE would spend an average less than $1 million per application and that fees paid by applicants would cover about 80 percent of those costs.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting S. 1337 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

S. 1337 contains no intergovernmental or private-sector mandates as defined in UMRA.

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