



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 12, 2018

H.R. 6106 **Common Sense Permitting Act**

As ordered reported by the House Committee on Natural Resources on June 20, 2018

SUMMARY

H.R. 6106 would allow the Bureau of Land Management (BLM) to expedite the approval of applications for permits to drill (APDs) for oil and gas on federal lands by excluding certain environmental analyses currently required by the National Environmental Policy Act (NEPA) from the application process. CBO estimates that enacting H.R. 6106 would accelerate oil and gas production on federal lands and increase royalty payments to the BLM. However, using information provided by the BLM and the Energy Information Administration (EIA), CBO estimates that enacting the bill would have no significant net effect on the federal budget over the 2019-2028 period.

Enacting H.R. 6106 would affect direct spending; therefore, pay-as-you-go procedures apply. The bill would not affect revenues.

CBO estimates that enacting H.R. 6106 would not increase net direct spending by more than \$2.5 billion or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2029.

H.R. 6106 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 6106 is shown in the following table. The costs of the legislation fall within budget function 300 (natural resources and environment).

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES OR DECREASES (-) IN DIRECT SPENDING													
Oil and Gas Royalties													
Estimated Budget Authority	0	-35	-60	-95	-120	-30	35	90	125	60	30	-340	0
Estimated Outlays	0	-35	-60	-95	-120	-30	35	90	125	60	30	-340	0
Payments to States													
Estimated Budget Authority	0	17	29	47	59	15	-17	-44	-61	-29	-15	167	0
Estimated Outlays	0	17	29	47	59	15	-17	-44	-61	-29	-15	167	0
Total Changes													
Estimated Budget Authority	0	-18	-31	-48	-61	-15	18	46	64	31	15	-173	0
Estimated Outlays	0	-18	-31	-48	-61	-15	18	46	64	31	15	-173	0

Components may not sum to totals because of rounding.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted near the end of 2018.

Direct Spending

H.R. 6106 would authorize the BLM to approve APDs for oil and gas development on federal lands without requiring producers to undertake certain environmental analyses listed in NEPA. Using information provided by the BLM, CBO estimates that forgoing those analyses would reduce the time required to approve APDs by about 25 days, which CBO expects would accelerate oil and gas production on federal lands.¹

Using information from the BLM and EIA, CBO estimates that at the beginning of 2019, the BLM will have about 2,300 pending APDs. CBO expects that under current law the BLM would reduce the backlog of APDs carried over each year to about 600 by the end of 2026, mostly for anticipated submissions of APDs late in fiscal year 2025. Under the bill, CBO expects that expediting the process would allow the agency to reduce the backlog to roughly 600 APDs by 2023, thus reaching the same backlog in about half the time. CBO estimates that accelerating the production of oil and gas by expediting APDs would result in a small net loss of royalty receipts to the government because production would shift from later years, when oil and gas prices are projected to be higher, to an

1. In 2017, the BLM's APD approval process required about 120 days, on average: Drilling operators spent about 70 days on preparation, and review and approval took about 50 days.

earlier period, when lower prices are anticipated. As a result, CBO expects that oil and gas production would accelerate, thus increasing payments of associated royalties to the federal government by \$335 million over the 2019-2023 period; royalties would decline by \$340 million over the 2024-2028 period.²

However, CBO expects that the small loss would be offset by shifting more receipts into 2019. CBO estimates that reducing the time required for the BLM to approve APDs by 25 days would accelerate production of oil and gas under APDs submitted each year by as many as 10 days. Because for the purposes of this estimate CBO expects that each year a roughly equal amount of production would be shifted into the previous fiscal year, the federal government would receive a net increase in royalties in 2019. Based on its estimates of about \$800 per day in royalties from the 1,350 new wells expected to begin production in 2019, CBO anticipates that enacting H.R. 6106 would increase royalties to the federal government by about \$5 million for the year.

Uncertainty

CBO aims to produce estimates that generally reflect the middle of a range of the most likely budgetary outcomes that would result if legislation was enacted. In estimating that range of effects, CBO had to account for two major sources of uncertainty.

First, although CBO cannot predict future oil and gas prices precisely, this estimate relies on a projected path for the 2019-2028 period that is part of the agency's economic forecast. If prices fall, the forward shift in the timing of oil and gas production would result in a net increase in royalties because production volume would be higher when prices were higher and lower when prices were lower. Conversely, if prices increase faster or reach higher amounts than CBO projects, accelerating oil and gas production would result in a net reduction in royalties. Because APD submissions are generally correlated with oil and gas prices, prices that are significantly higher or lower than CBO projects would affect the number of applications the BLM received, which would affect how quickly it could reduce the backlog of pending APDs.

A second source of uncertainty concerns the lack of information on the timing and quantity of oil and gas production from particular wells in many states where such drilling occurs on federal lands. CBO drew on production data from certain other states along with information on royalties from those states and others to estimate the bill's total effect on royalties. Although obtaining more precise information could have strengthened CBO's estimates of royalties under H.R. 6106, CBO does not expect that the information

2. CBO estimates that gross royalty payments to the Department of the Interior will total about \$10 billion over the 2019-2023 period and \$11.5 billion over the 2024-2028 period. Most of those royalties will come from production from wells drilled before 2019.

would have significantly changed its estimate of the net budgetary effect of enacting H.R. 6106, given the same projected price paths for oil and gas.

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 outlays 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. 6106, the Common Sense Permitting Act, as Ordered Reported by the House Committee on Natural Resources on June 20, 2018

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2018-2023	2018-2028
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Effect	0	-18	-31	-48	-61	-15	18	46	64	31	15	-173	0

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 6106 would not increase net direct spending by more than \$2.5 billion or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

H.R. 6106 contains no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY

Federal Costs: Kim Cawley
Mandates: Jon Sperl

ESTIMATE REVIEWED BY

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis

Theresa A. Gullo
Assistant Director for Budget Analysis