# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

July 20, 2012

# H.R. 6082
## Congressional Replacement of President Obama's Energy-Restricting and Job-Limiting Offshore Drilling Plan

*As ordered reported by the House Committee on Natural Resources on July 18, 2012*

## SUMMARY


H.R. 6082 would establish a schedule for oil and gas lease sales in the Outer Continental Shelf (OCS) that would replace the leasing plan developed by the Department of the Interior (DOI) for the 2012-2017 period. The bill would direct DOI to auction leases in areas that are not included in DOI's plan, including the OCS in the Atlantic and Pacific Oceans and the North Aleutian Basin in Alaska. It also would require auctions to be held earlier and more frequently in certain OCS areas in Alaska and the eastern Gulf of Mexico. Under H.R. 6082, the timetable for sales in the central and western Gulf of Mexico, which occur annually under current policies, would remain unchanged.

CBO estimates that enacting H.R. 6082 would increase offsetting receipts collected from lease sales over the 2013-2022 period, thus reducing net direct spending by about $600 million over that period. In addition, CBO estimates that implementing the bill would cost $35 million over the 2013-2017 period, assuming appropriation of the necessary amounts. Enacting this bill would not affect revenues. Pay-as-you-go procedures apply because enacting the legislation would affect offsetting receipts (a credit against direct spending).

H.R. 6082 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.


## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 6082 is shown in the following table. The costs of this legislation fall within budget functions 300 (natural resources and the environment) and 950 (undistributed offsetting receipts).

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2013-2017 |
| **CHANGES IN DIRECT SPENDING [a]** | | | | | | |
| Estimated Budget Authority | 0 | 0 | -150 | -135 | -235 | -520 |
| Estimated Outlays | 0 | 0 | -150 | -135 | -235 | -520 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | | |
| Estimated Authorization Level | 15 | 15 | 2 | 2 | 1 | 35 |
| Estimated Outlays | 13 | 15 | 4 | 2 | 1 | 35 |

a. Over the 2013-2022 period, CBO estimates that enacting H.R. 6082 would reduce net direct spending by $600 million.

## BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 6082 will be enacted near the end of 2012 and that the amounts necessary to implement the bill will be appropriated each year. Because oil and gas production usually occurs several years after a lease is issued, CBO expects that most of the net increase in offsetting receipts under H.R. 6082 over the next 10 years would result from bonus payments collected when firms acquire leases.

### Direct Spending

H.R. 6082 would codify an OCS leasing schedule for the 2013-2017 period that includes auctions in areas that would not be leased under DOI's current five-year plan. CBO estimates that those additional sales would increase net offsetting receipts, a credit against direct spending, by about $600 million over the 2013-2022 period relative to the amounts we expect the government to collect from OCS leasing under current law. That estimate is based on information from DOI about the oil and gas resources in the affected regions, historical rates of leasing in those areas, and recent trends in the amount of bonus bids paid for other OCS leases. Although H.R. 6082 would direct DOI to hold certain lease sales starting in 2013, CBO anticipates that most of the additional proceeds would be collected after 2015 because of the time needed to complete geological, environmental, and other assessments for each sale and to issue leases to winning bidders.

**Leasing in the Atlantic and Pacific OCS.** With the exception of certain areas off the coast of Florida, which are subject to a temporary ban on leasing until July 1, 2022, decisions about where and when to offer OCS leases are made administratively—in consultation with industry and affected states—for five-year periods. Leases cannot be offered for areas that are not included in a five-year plan, but the available regions may change whenever a new plan is adopted. Based on DOI's plan for 2013 through 2017, CBO assumes that no leasing will occur in the Atlantic or Pacific OCS over that period. However, CBO's baseline projections of oil and gas leasing receipts reflect the possibility that DOI will offer leases in those areas after 2017.[1] CBO assumes that enacting H.R. 6082 would have no effect on OCS leasing policies after 2017 because the stipulations in the bill would apply only to auctions held during the 2013-2017 period.

Estimates of potential proceeds from leasing in areas of the Atlantic and Pacific OCS are uncertain. Because there has been no leasing activity in those areas for more than 25 years, there are no data on bidders' assessments of the value of those resources relative to alternative investments in domestic resources onshore, other OCS regions, or international prospects. Areas that primarily contain natural gas may not attract significant industry interest if prices remain near their current levels.[2] Other factors that could affect bidder interest include the absence of pipelines and onshore processing facilities in key areas and past litigation regarding offshore oil and gas development, which resulted in the cancellation of some federal leases in both regions. In addition, some resources in those regions probably would be excluded from auctions because leasing may not be compatible with state coastal zone management plans.

Based on such considerations and DOI's resource assessments, CBO estimates that conducting auctions in the Atlantic and Pacific OCS as specified by this bill would increase net proceeds from oil and gas leasing by $550 million over the 2013-2022 period relative to the amounts expected under current law. Based on historical trends, CBO estimates that the additional bonus payments would be collected by 2018. The change in receipts for the remainder of the 10-year period would be limited to rental payments on nonproducing leases and royalties on any leases brought into production within that period.

Although the timing of auctions in the Atlantic and Pacific after 2017 under current law is unknown, CBO expects that leasing will occur at some point in the future without any change in law. Thus, legislation to require immediate leasing of those areas would accelerate development but probably not affect the total amount of development in those areas over the next several decades.

**Leasing in the Alaska OCS.** The leasing schedule in H.R. 6082 would include an auction in the North Aleutian Basin in Alaska in 2016. That OCS region is not included in DOI's

1. The geographic scope of OCS leasing has changed often over the past few decades. See Adam Vann, *Offshore Oil and Gas Development: Legal Framework*, CRS Report for Congress RL33404 (Congressional Research Service, May 2, 2011); and Curry L. Hagerty, *Outer Continental Shelf Moratoria on Oil and Gas Development*, CRS Report for Congress R41132 (Congressional Research Service, March 23, 2011).

2. The Energy Information Administration estimates that no oil or gas will be produced in the Atlantic OCS through 2035 under the price and resource assumptions in the agency's reference case for 2012. See *Annual Energy Outlook 2012,* DOE/EIA-0383(2012) (June 2012), tables 132 and 133. Those projections assume that leasing in the Atlantic OCS will begin in 2018. See *Annual Energy Outlook 2011*, DOE/EIA-0383 (2011) (April 2011), pp. 35-37.

leasing plan for the 2013-2017 period. Estimates of bidder valuations and interest in such leases are uncertain because the firms that won leases in this region in the 1980s relinquished them as a result of litigation. For this estimate, CBO anticipates that bonus bids could range from a few million dollars to about $100 million, which would be roughly proportionate to the prices recently paid for resources leased in the Chukchi Sea. CBO estimates that proceeds from enacting this provision would fall in the midpoint of this range—or about $50 million.

**Leasing in Areas Where Leasing Will Occur Under the Current Five-Year Plan.** H.R. 6082 would change the timing and frequency of auctions in some areas that are included in DOI's current five-year plan, such as the Chukchi Sea, Beaufort Sea, and Cook Inlet in Alaska and part of the eastern Gulf of Mexico. For example, the bill would direct DOI to auction leases in the Chukchi Sea three times during the 2013-2017 period, compared to the single sale planned by DOI. CBO estimates that those stipulations would change the years in which receipts are collected but would have no significant net effect on the amount of receipts over the 2013-2022 period.

Although DOI makes areas available for oil and gas development, the quantity of acreage leased and the prices paid for those leases depend on decisions made by firms. Industry valuations typically reflect information from seismic analysis and from exploration and development activities on other leases. Because such activities typically take several years to complete, CBO expects that the information available to bidders for valuing leases would be roughly the same whether leases are auctioned on a single or multiple occasions within that five-year period.

### Spending Subject to Appropriation

Based on spending patterns for similar activities, CBO estimates that DOI would spend about $35 million over the 2013-2017 period to complete pre-auction assessments and conduct the additional lease sales required by the bill, assuming appropriation of the necessary amounts.

## 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. 6082 as ordered reported by the House Committee on Natural Resources on July 18, 2012**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2012-2017 | 2012-2022 |
| | | | | | NET INCREASE OR DECREASE (-) DEFICIT | | | | | | | | |
| Statutory Pay-As-You-Go Impact | 0 | 0 | 0 | -150 | -135 | -235 | -60 | -5 | -5 | -5 | -5 | -520 | -600 |

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 6082 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

## PREVIOUS CBO ESTIMATES

CBO has prepared cost estimates for two pieces of legislation that are similar to H.R. 6082. On May 2, 2011, CBO transmitted a cost estimate for H.R. 1231, the Reversing President Obama's Offshore Moratorium Act, as ordered reported by the House Committee on Natural Resources on April 13, 2011. On February 7, 2012, CBO transmitted a cost estimate for H.R. 3410, the Energy Security and Transportation Jobs Act, as ordered reported by the House Committee on Natural Resources on February 1, 2012. Differences among the estimates largely reflect differences in provisions regarding the eastern Gulf of Mexico, revenue sharing with states, and the time period covered by the legislation: H.R. 6082 would revise leasing policies for the period from 2013 through 2017; in contrast, the changes in H.R. 1231 and H.R. 3410 would remain in effect indefinitely.

## ESTIMATE PREPARED BY:

Federal Costs: Kathleen Gramp
Impact on State, Local, and Tribal Governments: Mellissa Merrell
Impact on the Private Sector: Amy Petz

## ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis