Congressional Budget Office
Cost Estimate

July 12, 2019

At a Glance

H.R. 1941, Coastal and Marine Economies Protection Act
As ordered reported by the House Committee on Natural Resources on June 19, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	50	200
Revenues	0	0	0
Deficit Effect	0	50	200
Spending Subject to Appropriation (Outlays)	0	-28	n.e.

Statutory pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	**Cannot Determine**	Contains intergovernmental mandate?	**No**
		Contains private-sector mandate?	**No**

n.e. = not estimated

The bill would

- Prohibit future auctions of leases for oil and gas development in the Atlantic and Pacific regions of the Outer Continental Shelf (OCS)

Estimated budgetary effects would primarily stem from

- Reducing collection of offsetting receipts from offshore oil and gas leases
- Reducing spending subject to appropriation for administrative expenses related to leasing activities in the Atlantic and Pacific regions of the OCS

Areas of significant uncertainty include

- Estimating the amount and timing of any future government income from leasing in the Atlantic and Pacific OCS under current law

Detailed estimate begins on the next page.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

Bill Summary

H.R. 1941 would prohibit future auctions of leases for oil and gas development in the Atlantic and Pacific Outer Continental Shelf. Under current law, decisions on where and when to offer leases in the OCS are made administratively by the Secretary of the Interior—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. H.R. 1941 would direct the Secretary to exclude the Atlantic and Pacific regions from such plans.

Estimated Federal Cost

The estimated budgetary effect of H.R. 1941 is shown in Table 1. The costs of the legislation fall within budget functions 950 (undistributed offsetting receipts) and 300 (natural resources and the environment).

Table 1.
Estimated Budgetary Effects of H.R. 1941

	By Fiscal Year, Millions of Dollars											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
	Increases in Direct Spending												
Estimated Budget Authority	0	0	0	0	25	25	30	30	30	30	30	50	200
Estimated Outlays	0	0	0	0	25	25	30	30	30	30	30	50	200
	Decreases in Spending Subject to Appropriation												
Estimated Authorization	0	-10	-12	-4	-1	-1	n.e.	n.e.	n.e.	n.e.	n.e.	-28	n.e.
Estimated Outlays	0	-7	-11	-7	-2	-1	n.e.	n.e.	n.e.	n.e.	n.e.	-28	n.e.

n.e. = not estimated.

Basis of Estimate

For this estimate, CBO assumes that the legislation will be enacted near the end of 2019.

Background

Companies that lease federal oil and gas resources pay a bonus bid when they acquire leases, make rental payments on nonproducing acreage, and pay royalties based on the value of the oil and gas produced. Using the technical and economic assumptions that underlie CBO's May 2019 baseline projections, CBO estimates that offsetting receipts from leasing activities in all areas of the OCS will total $56 billion over the 2020-2029 period. Royalties on production account for about 90 percent of that total, and bonus payments for most of the remainder. Because production in the OCS usually begins several years after a lease is issued, CBO expects that most of the proceeds during that period from leases issued after 2020 would be from bonus payments.

CBO's baseline projections of bonus bids reflect recent trends in OCS auction proceeds as well as factors that may affect the value of resources in specific areas. In particular, CBO considers the number of leases acquired by bidders in auctions and trends in the winning bids for the top 10 leases, which recently have accounted for more 40 percent of the total proceeds from individual auctions.[1] Receipts from individual sales also vary depending on the bidders' assessments of the strategic value of specific geological resources, the degree of competition, and the size of the companies acquiring the leases. For new areas, CBO expects that proceeds also would reflect the bidders' assessment of the type and quality of the infrastructure and the costs of operating in a region.

The timing and location of OCS auctions currently are governed by the five-year plan for 2017 through 2022, which was adopted in 2016. Because that plan does not authorize auctions in the Atlantic and Pacific regions, CBO anticipates that no leasing will occur in those regions through 2022 under current law. However, CBO's baseline projections of oil and gas leasing receipts after 2022 reflect the possibility that DOI will authorize auctions in those areas under subsequent leasing plans.

Direct Spending

CBO estimates that enacting H.R. 1941 would reduce net offsetting receipts (which are recorded in the budget as decreases in direct spending) and thus would increase direct spending by $200 million over the 2020-2029 period. That estimate reflects the effects of prohibiting leasing activity that otherwise may occur under current law.

Because no leasing has occurred in the affected regions since the 1980s, estimates of future proceeds are uncertain. Although some companies recently applied for permits to do seismic testing off the Atlantic coast, industry comments on DOI's leasing plan for the 2017-2022 period indicate that auctions in these regions may be a lower priority than lease sales in other areas in the Gulf of Mexico.[2] Several factors could affect the industry interest in the Atlantic and Pacific regions, including the absence of pipelines and onshore processing facilities in key areas, opposition in some states to the siting of such facilities in coastal areas, and past

1. Since 2015, the top 10 bids in each auction of leases in the Gulf of Mexico have accounted for fewer than 10 percent of the leases issued but more than 40 percent of the proceeds generated by the sales. Winning bids from the top 10 leases in the Central Gulf of Mexico have declined from an average of about $60 million each over the 2008-2014 period to about $10 million over the past five years.

2. DOI's summary of comments on the draft leasing plan for 2017-2022 indicated that companies were most interested in auctions of resources in the Eastern Gulf of Mexico (which is subject to a statutory moratorium through June, 2022), followed by interest in the Mid- and South-Atlantic OCS. See Bureau of Ocean Management, *2017-2022 Outer Continental Shelf Oil and Gas Leasing Draft Proposed Program* (January 2015), pp. 3-13, www.boem.gov/2017-2022-DPP (PDF, 6.2 MB).

litigation regarding offshore oil and gas development, that resulted in the cancellation of some federal leases in both regions.[3] 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.

CBO has no basis to estimate the specific probability of auctions occurring in the future. In the absence of specific information, CBO uses a 50 percent probability that auctions would occur after 2022 to reflect the legal authority that would exist to hold such auctions.

Taking into account such uncertainties and assuming that 50 percent chance that auctions will occur after 2022, CBO estimates that, under current law, auctioning leases in the Atlantic and Pacific OCS would generate offsetting receipts totaling $200 million over the 2023-2029 period. That estimate is roughly equivalent to a theoretical case in which 50 percent of the value of 300 leases are acquired at an average price of $1.3 million—an amount that is slightly higher the $1 million average price paid per lease in the Gulf of Mexico in 2018. While some expect that new geologic prospects such regions may be more valuable than those in well-developed portions of the Gulf of Mexico, CBO anticipates that most of those advantages would be offset by the additional logistical costs of developing resources in the Atlantic and Pacific OCS.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 1941 would reduce DOI's administrative costs by $28 million over the 2020-2024 period. That estimate is based on historical spending patterns for developing leasing plans and completing the environmental, geologic, and economic assessments that are required under current law for potential auctions of leases in the Atlantic and Pacific OCS. Any reduction in spending would depend on future appropriations being reduced by the estimated amounts.

Uncertainty

The amounts the government might collect under current law for leases in areas in the Atlantic and Pacific OCS are uncertain and could be higher or lower than CBO estimates. The timing of any auctions will depend on future administrative actions that cannot be predicted. In addition, potential bidders could rely on assumptions that differ from CBO's, including projections of the long-term prices for oil and gas, production costs, the areas' resource potential, and alternative investment opportunities. The factors that affect companies' investment decisions could result in a wide range of possible bonus bids.

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3. Agencies in several states, including California, New Jersey, and North Carolina, have adopted policies that ban oil and gas drilling and related activities in state waters and have opposed including their areas in the five-year leasing plan. See Bureau of Ocean Management, *2017-2022 Outer Continental Shelf Oil and Gas Leasing Draft Proposed Program* (January 2015), pp. 3-13, www.boem.gov/2017-2022-DPP (PDF, 6.2 MB).

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 Table 2.

Table 2.
CBO's Estimate of Pay-As-You-Go Effects of H.R. 1941

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
	Net Increase in the Deficit												
Statutory Pay-As-You-Go Effect	0	0	0	0	25	25	30	30	30	30	30	50	200

Increase in Long-Term Deficits

CBO cannot determine whether enacting the bill would increase net direct spending by more than $5 billion in any of the four consecutive periods beginning in 2030. H.R. 1941 would preclude the development of some oil and gas resources that otherwise may occur in the Atlantic or Pacific regions under current law. The potential loss of offsetting receipts after 2029 would depend on several factors, including future prices for oil and gas, the timing and quantity of any production, and future administrative actions. For example, the cost of implementing the bill may not exceed $5 billion in any of those periods if prices are similar to those assumed in CBO's May 2019 baseline projections of $74 per barrel in 2029 and there is only a 50 percent chance that the resources estimated by the DOI are leased for development. On the other hand, costs could exceed $5 billion in some periods if prices or production exceed those projected amounts.

Mandates: None

Estimate Prepared By

Federal Costs: Kathleen Gramp

Mandates: Rachel Austin

Estimate Reviewed By

Kim Cawley
Chief, Natural and Physical Resources Cost Estimates Unit

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis

Theresa Gullo
Assistant Director for Budget Analysis