CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 30, 2010

H.R. 5626
Blowout Prevention Act of 2010

As reported by the House Committee on Energy and Commerce on July 29, 2010

SUMMARY

H.R. 5626 would establish new regulatory standards and procedures for certain offshore and onshore oil and gas wells. The regulations would be developed by the Department of the Interior (DOI) and Department of Energy (DOE) using guidelines in the bill regarding the design, installation, operation, maintenance, and management of devices designed to prevent a blowout of certain oil or gas wells. The bill would create a Well Control Technical Advisory Committee to advise the agencies on such regulatory matters and would require most phases of an oil and gas project to be reviewed and certified by independent experts. Under this bill, the appropriate regulatory agency would be directed to assign third-party experts for those reviews and to collect fees from operators to cover their costs. Finally, H.R. 5626 would establish protections for whistleblowers and assess civil and criminal penalties for violations of the legislation.

Assuming appropriation of the necessary amounts, CBO estimates that implementing the bill would cost $213 million over the 2011-2020 period for third-party reviews and certifications. In addition, CBO estimates that requiring operators to pay fees to cover those costs would increase offsetting receipts (which reduce direct spending) by $195 million over the 2011-2020 period. Potential proceeds from civil and criminal penalties would be negligible in any year, CBO estimates. Pay-as-you-go procedures apply to this legislation because it would affect direct spending and revenues.

H.R. 5626 would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the cost to public entities would fall well below the annual threshold established in UMRA for intergovernmental mandates ($70 million in 2010, adjusted annually for inflation). Because the cost to private entities would depend on future regulatory action, CBO cannot determine whether the cost of the private-sector mandates would exceed the annual threshold established in UMRA ($141 million in 2010, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5626 is shown in the following table. The costs of this legislation fall within budget functions 300 (environment and natural resources) and 950 (undistributed offsetting receipts).

	By Fiscal Year, in Millions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	0	-19	-19	-20	-21	-22	-22	-23	-24	-25	-79	-195
Estimated Outlays	0	-19	-19	-20	-21	-22	-22	-23	-24	-25	-79	-195
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	20	20	21	22	23	23	24	25	26	27	106	231
Estimated Outlays	5	20	20	21	22	23	24	25	26	27	88	213

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted by the end of 2010 and that the necessary amounts will be appropriated each year.

H.R. 5626 would require DOI and DOE to conduct inspections and to enter into contracts with independent experts to certify the performance of various aspects of certain oil and natural gas production facilities in the Outer Continental Shelf and other areas. The expenditures of those departments are subject to the availability of appropriations. Under this bill, fees for the inspection activities would be collected independently of amounts appropriated for inspections. Thus, amounts collected from federal lessees on the OCS would be classified as offsetting receipts, which would reduce direct spending. (Such receipts would not specifically offset amounts provided for inspections in future appropriations acts.) CBO estimates such receipts would total $195 million over the 2011-2020 period.

CBO expects that H.R. 5626 would primarily affect activities in the OCS. While the legislation would apply to all wells that produce more than 10 barrels of oil per day (or comparable volumes of natural gas), federal oversight of those operations would occur only if state, tribal, or other federal regulators cannot effectively enforce the standards in the bill. Based on trends in other, environmental and resource management programs, CBO expects that those entities would satisfy those requirements. Thus, we estimate that any additional costs and fees associated with operations with outside of the OCS would not be significant.

Based on information from DOI and other public sources, CBO estimates that federal agencies would spend $88 million over the next five years to inspect and ensure the independent review of operations on the OCS, assuming appropriation of the necessary amounts. This estimate assumes that more than 100 drilling facilities would operate each year and that oversight of each facility would cost $200,000 annually, adjusted for inflation. Administrative costs for the advisory committee and other regulatory activities are estimated to cost about $1 million a year.

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 and 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. 5626, as ordered reported by the House Committee on Energy and Commerce on July 15, 2010

	By Fiscal Year, in Millions of Dollars												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010-2015	2010-2020
						NET DECREASE (-) IN THE DEFICIT							
Statutory Pay-As-You-Go Impact	0	0	-19	-19	-20	-21	-22	-22	-23	-24	-25	-79	-195

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5626 would impose intergovernmental and private-sector mandates, as defined in UMRA. CBO estimates that the cost to public entities would fall well below the annual threshold established in UMRA for intergovernmental mandates ($70 million in 2010, adjusted annually for inflation). Because the cost to private entities would depend on future regulatory action, CBO cannot determine whether the cost of the private-sector mandates would exceed the annual threshold established in UMRA ($141 million in 2010, adjusted annually for inflation).

Mandate that Applies to Both Public and Private Entities

The bill would prohibit any person or employer from terminating or otherwise discriminating against an employee with respect to compensation, terms, conditions, or privileges of employment because that employee reported an alleged violation of safety regulations. CBO estimates that public and private entities would incur minimal costs, if any, to comply with such protections for their employees.

Mandates that Apply to Private Entities Only

The bill would impose a mandate on operators of oil and gas wells located on nonfederal offshore and onshore lands that the federal government determines could, in the event of a blowout, result in extensive harm to public health and safety or the environment. That mandate would require those operators to comply with new safety standards, including requirements for well design and devices designed to prevent a blowout. According to information from state energy officials and industry experts, the cost of complying with those standards could be significant, but would depend on how many wells the federal government determines would need to comply with the requirements. Because of uncertainty about the number and type of wells that would be affected, CBO cannot estimate the cost of the mandate to private entities.

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