CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 21, 2011

H.R. 2937
Pipeline Infrastructure and Community Protection Act of 2011

As ordered reported by the House Committee on Energy and Commerce on September 21, 2011

SUMMARY

The Pipeline and Hazardous Materials Safety Administration (PHMSA) oversees the safety of pipelines that transport gas or hazardous liquids and provides grants to states for programs to ensure pipeline safety. For those activities, CBO estimates that H.R. 2937 would authorize gross appropriations of $433 million over the 2012-2016 period. CBO expects that about $355 million of those amounts would be offset by fees paid by pipeline operators over that period. In addition, subject to provisions in appropriation acts, CBO estimates that the bill would authorize PHMSA to collect and spend about $20 million over the 2012-2016 period to recover its costs of conducting safety reviews of certain large pipeline projects. Altogether, CBO estimates that implementing H.R. 2937 would have a net cost of $47 million over the 2012-2016 period, assuming appropriation of the necessary amounts.

H.R. 2937 would increase certain civil penalties for violating pipeline safety regulations. Civil penalties are recorded in the budget as revenues and deposited in the general fund of the Treasury. However, CBO estimates that any increase in civil penalties would be small and would have no significant effect on the federal budget. Pay-as-you-go procedures apply because enacting the legislation could affect revenues. Enacting the bill would not affect direct spending.

H.R. 2937 contains intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) because it would impose new requirements on both public and private operators of natural gas pipelines. The bill would impose additional private-sector mandates on operators of hazardous liquid pipelines. Because of the relatively small number of public entities affected, CBO estimates that the aggregate cost of intergovernmental mandates in the bill would fall below the annual threshold established in UMRA ($71 million in 2011, adjusted annually for inflation). Based on information from PHMSA and industry sources, CBO estimates that the aggregate cost of the private-sector mandates would exceed the annual threshold established in UMRA ($142 million in 2011, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2937 is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Year, in Millions of Dollars					
	2012	2013	2014	2015	2016	2012-2016
SPENDING SUBJECT TO APPROPRIATION						
Spending for Pipeline Safety						
Estimated Authorization Level	134	143	146	5	5	433
Estimated Outlays	66	120	138	75	23	422
Offsetting Collections from User Fees and Pipeline Design Review						
Estimated Authorization Level	-114	-124	-127	-5	-5	-375
Estimated Outlays	-114	-124	-127	-5	-5	-375
Estimated Net Spending						
Estimated Authorization Level	20	19	19	0	0	58
Estimated Outlays	-48	-4	11	70	18	47

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2937 will be enacted near the start of fiscal year 2012 and that the specified and necessary amounts will be appropriated each year. Estimates of spending are based on historical spending patterns for pipeline safety programs.

Spending Subject to Appropriation

Spending for Pipeline Safety. H.R. 2937 would reauthorize the laws that govern PHMSA's role in pipeline safety. The bill would authorize the appropriation of $433 million, CBO estimates, for PHMSA's pipeline safety activities over the 2012-2016 period. (In 2011, PHMSA's gross appropriation for pipeline safety was $106 million.) H.R. 2937 would authorize PHMSA to hire 39 new employees to analyze and inspect pipelines over the 2012-2014 period. The bill also would require PHMSA to complete a number of studies, update certain industry standards, and issue new regulations on pipeline safety more quickly than under current law. CBO estimates that implementing those provisions would cost $422 million over the 2012-2016 period, assuming appropriation of the specified and necessary amounts. However, CBO expects that about 85 percent of those costs would be recovered by PHMSA via user fees. CBO also expects that most of the remaining spending would be appropriated from fees deposited into the Oil Spill Liability Trust Fund.

Offsetting Collections for User Fees and Pipeline Design Reviews. Under provisions of the bill, CBO estimates that PHMSA would collect $375 million in user fees over the 2012-2016 period. Those amounts include user fees authorized under current law and are based on the appropriated level of funding as well as new fees for PHMSA activities related to reviewing construction designs for pipeline projects estimated to cost more than $1 billion. Based on information from PHMSA, CBO estimates that costs and fees related to such designs would total about $5 million per year.

Revenues

H.R. 2937 would increase the maximum penalties PHMSA may impose for certain violations of safety regulations that cause serious environmental damage or result in serious injuries or death. The bill also would permit new penalties to be imposed for obstructing inspections or investigations by PHMSA. Based on PHMSA's past penalty collections, CBO estimates that those provisions would result in increased revenue of less than $500,000 over the 2012-2021 period.

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. CBO estimates that enacting H.R. 2937 would have a negligible effect on revenues.

INTERGOVERNMENTAL AND PRIVATE SECTOR IMPACT

H.R. 2937 would impose mandates on public and private entities that operate natural gas pipelines and additional private-sector mandates on operators of hazardous liquid pipelines. Because of the relatively small number of public entities affected, CBO estimates that the aggregate cost of intergovernmental mandates in the bill would fall below the annual threshold established in UMRA ($71 million in 2011, adjusted annually for inflation); we estimate that the aggregate cost of the private-sector mandates in the bill would exceed the annual threshold established in UMRA ($142 million in 2011, adjusted annually for inflation).

Mandates that Apply to Both Public and Private Entities

Operating Pressure. The bill would require operators of transmission pipelines for natural gas that were constructed before July 1, 1970, and in areas at risk of significant damage from spills to confirm safe operating pressures for pipelines. The mandate would require such operators to ensure they have accurate records, test pipelines for which records are not sufficient, and report when pressure exceeds acceptable limits. According to PHMSA, about 24,000 to 30,000 miles of transmission pipelines are in affected areas. Published estimates indicate that the cost of testing pipelines could range from $150,000 to $500,000 per mile; according to industry sources, approximately 20 percent of pipelines in areas at risk of significant damage from spills might require testing. Based on that information, CBO expects that compliance costs to pipeline operators in the private sector could total hundreds of millions of dollars. Most of those costs would be incurred in the first few years the mandate is in effect. Because public entities operate a relatively small fraction of transmission pipelines for natural gas, CBO estimates the cost to state and local governments would total less than $20 million annually in the first few years after the mandate takes effect.

Integrity Management. H.R. 2937 would extend existing planning, testing, and safety requirements to additional pipelines. CBO cannot determine the costs of the mandates for private-sector entities because they would depend on future regulations. However, based on information from PHMSA and industry sources about the cost to comply with existing standards, the cost of imposing such standards on additional pipelines could be significant. Because of the relatively small number of public entities affected, CBO estimates that the cost to state and local governments would be small.

Shut-Off Valves. The bill would impose a mandate on operators of transmission pipelines by requiring them to install shut-off valves in new or entirely replaced transmission pipelines. According to industry sources, such valves currently cost $100,000 to $500,000 each depending on the size of the pipeline. The number of valves to be installed would depend on the spacing required between valves and areas where operators would have to install them. Because such requirements would be developed as part of future regulations, CBO has no basis for determining the cost of the mandate to private-sector entities. Because of the relatively small number of public entities affected, CBO estimates the cost to state and local governments would be small.

Fees. The bill would authorize PHMSA to collect new fees on construction projects that are large or use new technology. The bill also would increase existing user fees that pipeline operators submit to PHMSA. Based on information from PHMSA, CBO estimates that the additional fees to pipeline operators over the 2012-2014 period would average $31 million annually for private-sector entities and less than $1 million annually for state and local governments.

Reporting Requirements. The bill would require pipeline operators to report additional information to PHMSA and provide information on the management and replacement of cast iron pipelines for natural gas. Industry sources indicate that the cost of those mandates to private entities would amount to tens of millions of dollars annually. Based on information from industry sources, CBO estimates that the cost of those mandates to publicly owned pipeline operators could be significant because many such operators are small and lack resources to comply with the new reporting requirements. However, CBO estimates the costs to state and local governments would total less than $15 million annually.

Excess Flow Valves. H.R. 2937 would require operators of distribution pipelines for natural gas to install valves designed to prevent natural gas leaks in areas to be determined by PHMSA. According to industry sources, each valve would add about $30 to the cost of installation and approximately 200,000 installations per year could require such valves. CBO estimates that the cost of the mandate to public and private entities would be small.

Notification Requirements. The bill would require pipeline operators to notify state and local governments and emergency responders of accidents or incidents within specified time limits. CBO estimates that the cost of the mandate to public and private entities would be minimal.

Mandates that Apply to Private Entities Only

Leak Detection. The bill would impose a mandate by requiring the operators of hazardous liquid pipelines, such as oil pipelines, to use leak detection technologies where feasible. Under the bill, PHMSA would designate pipelines from a total of 176,000 miles. In addition, the bill could impose a mandate on operators of pipelines that transmit hazardous liquids across inland bodies of water at least 100 feet wide by authorizing PHMSA to issue regulations to ensure protection against leaks. Because the cost of those mandates would depend on future PHMSA regulations, CBO has no basis for determining the cost of this mandate.

Reporting Data on Oil Flow Lines. H.R. 2937 could impose a mandate on pipeline operators that transport oil by allowing PHMSA to collect additional geospatial, technical, or other data on oil flow lines. Because CBO does not know what information PHMSA would require operators to report, we have no basis for determining the cost of the mandate.

Safety Standards for Offshore Gathering Pipelines. H.R. 2937 would impose a mandate by requiring operators of pipelines used to gather hazardous liquids to follow additional safety requirements. According to industry sources, the mandate would apply to about 5,000 miles of pipeline. Because the cost of the mandate would depend on future PHMSA regulations, CBO has no basis for determining the cost of the mandate.

Other Requirements. The bill would impose several other new requirements on pipeline operators. Specifically, the bill would impose additional safety requirements on pipelines transporting biofuels; require PHMSA to regularly review waivers on safety requirements it provides to pipeline operators; and impose minimum safety standards for pipelines transporting carbon dioxide in a gaseous state. Based on information from industry sources and PHMSA, CBO estimates that the cost of each of those mandates would fall well below the annual threshold established in UMRA.

PREVIOUS CBO ESTIMATES

On June 9, 2011, CBO transmitted a cost estimate for S. 275, the Pipeline Transportation Safety Improvement Act of 2011, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on May 5, 2011. On September 27, 2011, we transmitted a cost estimate for H.R. 2845, the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, as ordered reported by the House Committee on Transportation and Infrastructure on September 8, 2011. The CBO cost estimates reflect the different amounts that the bills would authorize to be appropriated for PHMSA activities.

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