Senate Budget Committee Republican Staff

BUDGET BULLETIN

A Weekly Bulletin produced when the Senate is in session.

Don Nickles, Chairman
Hazen Marshall - Staff Director
202/224-6988 http://www.senate.gov/~budget/republican

108th Congress, 1st Session: No. 11 June 9, 2003

INFORMED BUDGETEER

SENATE DEBATES ENERGY BILL'S POTENTIAL COST, BUT NOT ITS REAL COST

- Last week S. 14, the Energy Policy Act of 2003, returned to the Senate floor for a concerted two-week push towards Senate passage. While over 100 amendments stand in the way, there are also budget implications to consider when evaluating the bill.

- According to the CBO cost estimate, the Senate-reported Energy bill would increase direct spending by $94 million in 2003, $212 million in 2004, and $5 billion over the 2004-2013 period. But, as the table at right shows, the Energy Committee does not have sufficient room under its allocation from the 2004 budget resolution to cover these costs. Therefore, there is a 60-vote point of order against S.14 for exceeding the Energy Committee's 302(a) allocation. (It is important to note that this estimate does not include the Frist ethanol amendment, the Energy Tax amendment, or any other amendments that may be considered during Senate debate.)

- Why does the Energy bill cost so much more than the amount the budget resolution assumed the Energy Committee would spend? Because while the budget resolution included a few policies that would have costs associated with them, it did not include any of the mandatory policies in S.14 which have significant budgetary impacts.

- The most expensive provision in the bill deals with Energy Savings Performance Contracts (ESPC). CBO estimates that this provision would cost $105 million in 2004 and $3.8 billion over the 2004-2013 period. Current law already allows federal agencies to enter into long-term contracts to purchase energy efficient equipment such as new windows and lighting, which can greatly reduce energy costs. Agencies project their future outlays for energy without the new efficient equipment, and then promise to pay vendors for the new equipment out of the savings in energy costs that would occur over the next 25 years after the new equipment is installed.

- S. 14 proposes not only to make the ESPC authority permanent, but to expand the use of ESPCs for constructing new federal buildings. In addition, the bill would create a pilot program that would allow the Department of Defense or other interested federal agencies to use up to 10 ESPCs to improve the performance and fuel consumption of general purpose vehicles and defense weapons systems such as tanks.

- OMB thus far has not required agencies to have a full, up-front appropriation to enter into an ESPC. But based on current accounting standards, CBO this year has begun to score the costs of such purchases up front, as it does for lease-purchases of federal buildings, public/private partnerships, and other capital purchases. (OMB's scoring practices on these latter examples are not consistent, as they require up-front appropriations for some activities, but not for others, even though the activities are similar.)

- The bill would also offer royalty relief or credits to producers for marginal wells or deep-water exploration, which would reduce federal receipts by $7 million in 2004 and $136 million over the 2004-2013 period.

- In addition, the bill would authorize the Federal Energy Regulatory Commission (FERC) to exercise authority over the reliability of the nation's electricity transmission system through the establishment of electric reliability organizations (EROs). These EROs would be able to collect fees and would then be able to spend them without further congressional action to pay for the operation of the ERO. CBO assumes that spending by the ERO and its regional affiliates would start at $100 million in 2004, and would total nearly $1.1 billion over the 2004-2013 period. The fees that the EROs would collect would be counted as federal revenues. These revenues are estimated at $75 million in 2004 and $820 million over the 2004-2013 period. While the net budgetary impact of the ERO provision is only $270 million over 10 years, the new revenues are not counted as savings for the Energy Committee's allocation, making the gross cost of this provision an expensive one compared to the committee's allocation.

- The final provision with a direct spending impact would allow DOE to transfer up to 3,293 metric tons of uranium to the United States Enrichment Corporation (USEC) to replace uranium that does not meet commercial specifications. CBO estimates that giving away uranium to USEC instead of selling it as required under current law would cause the federal government to forgo sales receipts of about $94 million in 2003.

MANDATORY SPENDING IN S. 14 EXCEEDS ENERGY COMMITTEE'S ALLOCATION UNDER BUDGET RES.
(Outlays or Revenues, in millions of Dollars)

	2003	2004	2004-2008	2004-2013
Direct Spending Outlays				
ESPCs	--	105	1,660	3,801
ERO	--	100	520	1,090
Oil and Gas Royalties	--	7	103	136
Forgone Uranium Sales	94	--	--	--
Total Direct Spending under S. 14	94	212	2,283	5,027
Energy Committee Allocation	--	19	305	915
Amount S. 14 Exceeds Budget Resolution	--	193	1,978	4,112
Memo:				
Increase in Revenues from ERO Fees	--	75	391	820
Net Budgetary Effect of ERO Provision	--	25	129	270
Net Pay Go Effect of S. 14	94	137	1,892	4,207

Source: SBC Republican Staff, CBO

- Notwithstanding these Budget Act problems, there is a more controversial provision of the bill, which describes, but does not fund, a new federal loan guarantee program. Unlike the above provisions, the loan guarantee program would not result in any costs – yet.

- In general, S. 14 would authorize the appropriation of $8.4 billion in 2004 (and $52.8 billion over the 2004-2013) for a range of research and development and other energy programs, both ongoing and new. That means that S. 14 itself does not provide funding for any such programs. Instead such programs would only exist in the future to the extent that future Congressional action provides annual appropriations to fund them.

- Included within the $52.8 billion in discretionary programs outlined by the bill is an authorization for the Department of Energy to provide loan guarantees for up to 50 percent of the construction costs of new nuclear power plants. The bill would authorize DOE to enter into long-term contracts for the purchase of power from those plants. The controversial, but relatively small authorization for $0.4 billion for the loan guarantees, would not even begin until 2011.

- CBO estimates that over the next 20 years, the DOE could provide credit assistance to six nuclear power plants. Based on information from the Nuclear Regulatory Commission DOE and industry sources, CBO estimates that construction on the first plant would begin after 2010, costing between $2.1 and $3 billion, including engineering, procurement, construction, and first-of-a-kind engineering costs.

- Using a mid-range estimate of $2.5 billion, CBO assumes that the first plant would be funded 50 percent by equity and 50 percent by debt. This means that the government loan guarantee would total $1.25 billion.

- CBO considers the risk of default on such a loan guarantee to be very high because it expects the plant would be uneconomic to operate due to the high construction cost relative to other electricity generation sources. A new nuclear power plant starting construction in 2011 would have construction costs of about $2300 per kilowatt of capacity compared to a range of $536-$1367 per kilowatt of capacity of other types of power plants. CBO assumes that because the cost of power from this plant would be significantly above the prevailing market rates, the plant operators would default on their loan, requiring the federal government to make good on its guarantee.

- CBO notes, however, that even if the completed plant is in default, it would continue to operate and sell power below its cost at prevailing market rates. Thus, over the plant's operating life, its creditors (which by then would be the federal government) could expect to recover a significant portion of the plant's construction loan. With these assumptions, CBO estimates that the government's subsidy rate on such a loan would be 30 percent, meaning that to guarantee a $1.25 billion loan would require an appropriation of $375 million in 2011.

- Given this, it is important to understand that (1) S. 14 itself does not provide the resources for the government to guarantee any loans and (2) the CBO estimate of the subsidy rate is not controlling if this new program were to be implemented eight years from now. If Congress ever provides a subsidy appropriation for this program, OMB will have the sole authority to estimate what the subsidy rate is for the program and how many loan guarantees can be extended based on the appropriation. For example, if OMB were to estimate the subsidy rate at 15 percent, then only $188 million in appropriations would be needed to make $1.25 billion in loan guarantees; if OMB estimated the rate at 40 percent, then a $500 million appropriation would be required. At this early stage, OMB has not indicated what its credit subsidy would be.

AVIATION BILL ALSO BREAKS BUDGET

- This week, S. 824, the Aviation Investment and Revitalization Vision Act (to reauthorize the operation of the Federal Aviation Administration - FAA), is expected to come to the Senate floor. While the bill is mostly noncontroversial, there are several issues that will inevitably have to be considered, including the possible privatization of air traffic controllers, an increase in outside-the-perimeter slots at Reagan National, and a possible increase in the mandated retirement age of pilots.

- In addition, there are budget implications to consider. According to the CBO estimate, the FAA bill would increase direct spending BA by $3.6 billion over the next 10 years with associated outlays of $1.7 billion. None of the policies in the bill that generate these increases were assumed in the budget resolution. (In fact, the Commerce Committee never even submitted a views and estimates letter to request that the resolution assume the policies in S. 824.) Therefore, the bill exceeds the Committee's allocation by those same amounts and has a Budget Act point of order against it (see table). (The Joint Committee on Taxation also estimates that the bill would reduce revenues by $11 million over the 2004-2013 period.)

SPENDING INCREASE IN S. 824 EXCEEDS COMMERCE COMMITTEE'S ALLOCATION UNDER BUDGET RESOLUTION

	2004	2004-2008a/	2004-2013
Commerce Comm. Allocation			
BA	0	4.819	0
Outlays	0	4.819	0
S. 824			
BA	0.019	1.833	3.639
Outlays	-0.418	0.864	1.719
Amount S. 824 is over (+) or under (-) Allocation			
BA	0.019	-2.986	3.639
Outlays	-0.418	-3.955	1.719

Source: SBC Republican Staff, CBO
a/ The $4.819 billion allocation in 2004-2008 (but zero allocation for the entire 2004-2013 period) reflects a budget resolution assumption of legislation that would delay certain spectrum auctions, thereby shifting auction receipts from 2007-2008 into the 2009-2010 period.

- S. 824 would extend the authorization for terrorism risk insurance for airlines from December 31, 2004 to December 31, 2006. S. 824 also would authorize the FAA to expand the program by offering insurance coverage to companies that manufacture aircraft and aircraft engines. CBO estimates that the net additional cost of providing insurance to air carriers and manufacturers through December 31, 2006, would be $1 billion over the 2004-2008 period and about $1.7 billion over the 2004-2013 period, assuming the program continues after 2006. CBO estimates that the FAA would collect about $400 million in additional premiums over the 2004-2008 period, but these collections would partially net against losses incurred.

- With regard to the Airport Improvement Program (AIP), the bill would provide $0.4 billion more in contract authority than the baseline levels assumed in the budget resolution for 2004 - 2006. Although the bill does not specify levels beyond 2006, the law requires CBO to project contract authority in subsequent years at the bill's 2006 level, meaning that projected contract authority in the bill would exceed the baseline by $1.9 billion over the next 10 years.

- The bill also would create a new mechanism to provide and pay for aviation security enhancements. A new Aviation Security Capital fund would be financed by $500 million in new annual security fees collected by the Transportation Security Agency. The Secretary of Transportation would administer the fund and make grants to airports to assist with capital security costs including the installation of explosive detection systems. Over the next ten years, the Secretary would spend all the fees collected, resulting in no net budgetary effect.