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State Share of Proceeds from Arctic National Wildlife Refuge (ANWR) Lease Sales

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What are the most recent estimates prepared by the Congressional Budget Office for lease sales in the Arctic National Wildlife Refuge Coastal Plain? How do those estimates compare with projections generated by other entities?

In December 2017, Congress enacted the Tax Cuts and Jobs Act of 2017 (Public Law 115-97), which, among other things, lifted the prohibition on oil and gas development in the Arctic National Wildlife Refuge (ANWR) Coastal Plain and required the Department of Interior (DOI) to implement an oil and gas leasing program within 1.5 million acres of federal land. Specifically, the DOI is required to hold two lease sales by 2025 and to offer at least 400,000 acres for lease each time. For each lease awarded, lessees are to pay the federal government a bonus bid to acquire the lease, annual rent to retain the lease, and royalties on any oil and gas produced (the current rate is 16.7 percent). Under the legislation, gross proceeds generated from the leasing program are evenly split with 50 percent to the state of Alaska and 50 percent to the federal government.

As you know, the 50/50 split differs from the revenue arrangement for Alaska established by the Alaska Statehood Act, under which Alaska receives 90 percent of mineral on federal lands within the state while 10 percent is deposited into the United States Treasury. Over the years, numerous measures attempting to open ANWR have been introduced. Most of these proposals called for 50 percent of bonus payments and royalties to go to the federal government and 50 percent to the state of Alaska. In 2015, however, Senators Lisa Murkowski and Dan Sullivan cosponsored the Alaska Economic Development and Access to Resources Act (*S.3203*), which called for Alaska to receive 90 percent of proceeds from oil and gas development in the ANWR Coastal Plain.

Estimates Provided by the Congressional Budget Office

The Congressional Budget Office (CBO) prepares cost estimates of proposed legislation upon request of committees. We provide brief summaries and links to the most recent CBO reports below.

The *most recent estimate by the CBO* of revenue generated by the ANWR lease program is from an analysis in June 2019 of H.R. 1146, which proposes to repeal the ANWR lease program. The CBO estimated that gross receipts from bonus bids for ANWR leases would total $1.8 billion over the 2019-2029 time period. Thus, under the 50/50 split, Alaska and the federal government would each receive about $900 million. The CBO did not provide detailed information on the methodology used for the analysis but stated generally that they relied on a range of projected oil prices, oil production volume, and total acreage leased. The CBO notes, for example, that based on this estimate, if bidders were to lease the minimum of 800,000 acres, the average bonus bid would be $2,250 per acre. The CBO found that based on federal lease sales in the lower 48 states and onshore and offshore Alaska, average bids ranged from roughly from $200 to $20,000 per acre. The CBO assumes that no significant royalty payments would be made until after 2029. If and when oil started flowing, the state and federal government would split royalties on a 50/50 basis.

In November 2017, the *CBO provided an analysis* of the section of the Tax Cuts and Jobs Act that relates to ANWR. The CBO estimated that gross proceeds from bonus bids would total $2.2 billion over the 2018-2027 period. According to the CBO, the estimate was based on "historical information about oil and gas leasing in the United States" and information from relevant federal agencies and individuals regarding the amounts companies are willing to pay for oil and gas leases. Under the 50/50 split, Alaska and the federal government are estimated to each receive $1.1 billion over the 2018-2027 time period. The CBO assumed that no significant royalty payments would be made until after 2027 and estimated rental payments of about $2 million each for the state and federal government over the 10-year time period.

In previous reports, which also considered a 10-year period, for proposed legislation to open the ANWR Coastal Plain, the CBO estimated, under a 50/50 split, that the state of Alaska and federal government would each receive from bonus bids $2.5 billion in *2005*, $3 billion in *2008*, and $2.5 billion in *2012*. The larger amounts estimated for these years were due primarily to higher oil prices.

All of the CBO reports that we reviewed discussed the uncertainty in estimating revenues from bonus bids. The CBO notes that bidders might make different assumptions than the CBO regarding long-term oil prices, production costs, the amount of petroleum resources in ANWR, and alternative investment opportunities. In particular, oil companies would need to compare potential investments in ANWR with other domestic and overseas options. In short, the number of factors that affect companies' investment decisions result in a wide range of possible bids. The CBO's estimate reflects its best estimate of the midpoint of that range.

Lease Sale Estimates Provided by Other Entities

Because it has been nearly two decades since the U.S. Geological survey has conducted a resource assessment of ANWR, the amount of revenue that could come from drilling in the Coastal Plain is an open question. While recent CBO reports have estimated roughly $1 billion could be generated over the next ten years for Alaska and the federal government, other groups have suggested lease sales would bring in much less revenue.

An *analysis prepared by the Center for American Progress* (CAP) found that offering oil and gas leases in the ANWR Coastal Plain is more likely to generate at most $37.5 million in revenue each for the federal Treasury and the state of Alaska over the next 10 years. The CAP pointed to low oil prices, the increase in shale oil production, and the lack of recent data on the resource available. Additionally, the most recent lease sale in an area close to ANWR yielded a bid of $28 per acre, which was below the average bids received for leases, for example, in the National Petroleum Reserve-Alaska.

The Wilderness Society issued a report, *"Costly Oil: Why drilling in the Arctic is a bad deal for Americans,"* which asserts the government's lease sale projections are "a pipedream" given low oil prices and the cost and risk of drilling in the Arctic. The report does not provide an estimate, but cites the CAP's $37.5 million figure.

Essentially, sustained low oil prices make development of more expensive oil resources less economically feasible.

We hope this is helpful. If you have questions or need additional information, please let us know.