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DOE MODERNIZATION: LEGISLATION TO AUTHORIZE

A PILOT PROJECT TO COMMERCIALIZE THE

STRATEGIC PETROLEUM RESERVE

TUESDAY, JULY 24, 2018

House of Representatives

Subcommittee on Energy

Committee on Energy and Commerce

Washington, D.C.

The subcommittee met, pursuant to call, at 10:15 a.m., in Room 2322 Rayburn House Office Building, Hon. Fred Upton [chairman of the subcommittee] presiding.

Members present: Representatives Upton, Olson, Barton, Shimkus, Latta, McKinley, Kinzinger, Johnson, Bucshon, Flores, Hudson, Walberg, Duncan, Walden (ex officio), Rush, McNerney, Peters, Green, Doyle, Welch, Tonko, Loeb sack, Kennedy, and Pallone (ex officio).

Staff present: Samantha Bopp, Staff Assistant; Kelly

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Collins, Legislative Clerk, Energy/Environment; Jerry Couri, Chief Environmental Advisor; Wyatt Ellertson, Professional Staff, Energy/Environment; Margaret Tucker Fogarty, Staff Assistant; Jordan Haverly, Policy Coordinator, Environment; Mary Martin, Chief Counsel, Energy/Environment; Sarah Matthews, Press Secretary, Energy & Environment; Drew McDowell, Executive Assistant; Brandon Mooney, Deputy Chief Counsel, Energy; Brannon Rains, Staff Assistant; Mark Ratner, Policy Coordinator; Peter Spencer, Professional Staff Member, Energy; Austin Stonebraker, Press Assistant; Madeline Vey, Policy Coordinator, Digital Commerce and Consumer Protection; Hamlin Wade, Special Advisor, External Affairs; Everett Winnick, Director of Information Technology; Andy Zach, Senior Professional Staff Member, Environment; Tiffany Guarascio, Minority Deputy Staff Director and Chief Health Advisor; Rick Kessler, Minority Senior Advisor and Staff Director, Energy and Environment; John Marshall, Minority Policy Coordinator; Alexander Ratner, Minority Policy Analyst; Tuley Wright, Minority Energy and Environment Policy Advisor; and C.J. Young, Minority Press Secretary.

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45 Mr. Upton. I know there is a couple different subcommittee
46 meetings today, but good morning.

47 Good morning. Welcome to the Energy Subcommittee for a
48 legislative hearing on a discussion draft that authorizes DOE
49 to conduct a pilot program to lease spare capacity in the Strategic
50 Petroleum Reserve.

51 I want to thank Vice Chairman Barton and Ranking Member Rush
52 for partnering on this draft as we continue our work to modernize
53 the Department of Energy.

54 The SPRO is the world's largest emergency stockpile of crude
55 in the world. More than 40 years ago, Congress authorized the
56 creation of the SPRO in response to the Arab oil embargo to
57 mitigate the threat of an energy supply disruption.

58 Back then, our domestic production was in the decline, energy
59 costs were rising, and we were becoming increasingly reliant on
60 imports.

61 The oil embargo exposed our vulnerabilities and panic
62 quickly spread. Some of us will remember those long lines at
63 the gas pump for sure.

64 So let's go to today. The U.S. is, arguably, more energy
65 secure now than ever before. We are the number one world producer
66 of oil and gas and our imports have declined by about 70 percent
67 since peaking in 2005.

68 With the surge of domestic production, our private stocks
69 of crude oil are at record levels, our pipelines are full, and

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70 our refineries are operating at near peak capacity.

71 So I want to thank our witnesses on both panels for appearing
72 before us today to provide their views on this legislation. I
73 want to thank Vice Chair Barton and Ranking Member Rush for their
74 work on this important piece of legislation.

75 I look forward to working with both of them and all members
76 of the subcommittee as we move this bill, hopefully, to the House
77 floor in the coming months.

78 And I now yield to the ranking member of the subcommittee,
79 Mr. Rush, for an opening statement.

80 [The prepared statement of Mr. Upton follows:]

81

82 *****INSERT 1*****

83 Mr. Rush. I want to thank you, Mr. Chairman, for holding
84 this important hearing this morning examining legislation to
85 authorize a pilot project to commercialize SPRO.

86 As you know, Mr. Chairman, subcommittee staff from the
87 minority and the majority side worked together on this bipartisan
88 bill and I am pleased to co-sponsor this legislation with my good
89 friend and colleague, Mr. Barton of Texas.

90 Mr. Chairman, since the inception of the SPRO, this was,
91 as you indicated, established as a result of the oil shortages
92 of the 1970. The energy portfolio of the United States has
93 changed dramatically.

94 In fact, the U.S. is expected to go from a heavy importer
95 of foreign oil to become the global leader in oil exports by as
96 early as next year, according to the IEA.

97 As a result of these shifting dynamics, Mr. Chairman, it
98 is important for policy makers including members of this
99 subcommittee to examine important questions including if there
100 is still a need for the SPRO. If so, how large should it be and
101 how should it be continued.

102 It is my hope, Mr. Chairman, that the pilot program outlined
103 in this bill will help inform our decision regarding the SPRO
104 -- regarding the feasibility of leasing all or part of the SPRO
105 to the private sector or to foreign governments even -- those
106 that do not pose a national security risk.

107 As we will discuss today, congressionally-mandated sales

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108 of SPRO oil has provided an opportunity to potentially lease the
109 subsequent unused space to private companies and/or foreign
110 governments as a way to maximize taxpayers' return on investment.

111 Mr. Chairman, I am also pleased that we have with us today
112 representatives from both the Department of Energy and the GAO,
113 among other witnesses, as both agencies have issued reports to
114 help guide our decision making on matters regarding the SPRO.

115 Unfortunately, Mr. Chairman, there appears to be some
116 discretion between the two agencies over the final
117 recommendations that GAO made in its May report entitled
118 "Strategic Petroleum Reserve: DOE Needs to Strengthen Its
119 Approach to Planning the Future of the Emergency Stockpile."

120 First, Mr. Chairman, DOE appears to concur with the GAO's
121 recommendation to supplement its 2016 review by conducting
122 additional analysis regarding the objective and purpose of the
123 SPRO, taking into account additional factors such as market
124 projections and private sector response.

125 DOE also agreed with the GAO's recommendation to
126 periodically reexamine the size of the SPRO with analysis looking
127 at the cost and benefits of the SPRO for a variety of different
128 sizes.

129 DOE also appears to concur with the GAO's findings as the
130 agency considers options for the long-term continuation of the
131 SPRO after the impact of congressionally-mandated sales of SPRO
132 oil are taken into account.

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133 Mr. Upton. That's not my wife either.

134 [Laughter.]

135 Mr. Rush. Maybe it's my newly -- my new wife.

136 Mr. Upton. Your new wife. Yes, sir.

137 [Laughter.]

138 Mr. Upton. Better answer it.

139 Mr. Rush. Yes.

140 Mr. Upton. You want to keep being married another 60 years.

141 Mr. Rush. All right, Mr. Chairman.

142 Hold on, dear.

143 [Laughter.]

144 Based on the testimony, it appears that some of these
145 recommendations will be included as a part of GAO's small
146 post-sale configuration study expected to be completed in October
147 of this year.

148 Mr. Chairman, the largest area of disagreement appears to
149 be over GAO's recommendation that DOE -- Department of Energy
150 -- conduct a cost benefit analysis of establishing regional
151 product reserves around the country -- around the country at areas
152 that have been identified as vulnerable to fuel supply disruption.

153 Mr. Chairman, I hope that we can get to the bottom of this
154 and I look forward to the testimony provided by our witnesses
155 today.

156 And finally, I want to tell our witnesses that we appreciate
157 them appearing before us today.

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158 Thank you, Mr. Chairman. I yield back.

159 Mr. Upton. The gentleman yields back.

160 The chair will recognize the chairman of the full committee
161 from the good state of Oregon, Mr. Walden, for an opening
162 statement.

163 The Chairman. Thank you, Mr. Chairman.

164 You know, over the course of the past year, the Energy and
165 Commerce Committee has been hard at work identifying what's
166 necessary to modernize the Department of Energy's national and
167 energy security functions.

168 The urgency of our focus has been driven by domestic and
169 international challenges that will be confronting the nation in
170 the decades ahead. These challenges, which range from
171 maintaining our nuclear security to protecting the reliable
172 supply and delivery of energy, require a Department of Energy
173 that has appropriate organization, management focus, and
174 authorities to succeed in its missions.

175 In recent months, the committee has moved legislation that
176 will establish enduring leadership within the DOE for addressing
177 all energy emergencies, including cybersecurity threats.

178 It has moved legislation that will ensure there is sufficient
179 coordination for secure and reliable delivery of fuels we rely
180 upon for our energy needs, including bulk electric power.

181 And just over the past few weeks, we moved legislation that
182 will strengthen DOE's support for next-generation nuclear energy.

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We've also moved reforms that streamline DOE's cumbersome regulatory approval process for foreign nuclear commerce, which has inhibited American businesses from competing effectively in global nuclear energy markets.

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So with today's draft legislation that Vice Chairman Barton and Ranking Member Rush have put together offers a similar forward-looking path -- this one, toward ensuring the nation's Strategic Petroleum Reserve, managed by DOE, will be more capable of responding to oil supply emergencies for decades to come.

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Congress, under this committee's leadership, established the SPRO in the wake of the 1973-1974 Arab oil embargo. That incident and the gasoline shortages and price spikes of ensuing years really underscored the growing vulnerability of the United States to international oil supply shocks, especially as reliance on imported oil was rapidly increasing.

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Well, times have changed, of course, and dramatically. The resurgence in American oil and gas production over the past decade has placed the United States into a dominant role when it comes to global oil and gas supplies and has begun to shift how we should view our SPRO assets.

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While the role of the SPRO may be shifting, it remains important for energy security. It will continue to help us meet our treaty-level obligations to international partners in the event of major supply disruptions.

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208 It will also help maintain our international energy
209 diplomacy, inhibiting adversaries from attempting to use oil as
210 an economic weapon, which ultimately benefits our own and our
211 allies' energy security.

212 Yet, we know that SPRO facilities require considerable
213 upgrades to be responsive when called upon, and as Congress has
214 mandated sales of some 290 million barrels, there is risk that
215 without serious reforms much of the reserves' capacity to serve
216 as a strategic stockpile will degrade further as those stocks
217 decline.

218 So against this backdrop arrives the draft legislation,
219 which offers an innovative way to accelerate reforms to the SPRO
220 by leasing underutilized space created as the reserve is drawn
221 down over the next decade.

222 A successful leasing program would attract investment into
223 improving facilities' operations that would be responsive to
224 commercial needs.

225 This, in turn, would enable more responsive use of federal
226 oil stocks during those emergencies and by preserving the existing
227 capacity of the reserve's caverns, the pilot program also ensures
228 this asset will remain available for DOE's security missions well
229 into the future.

230 So I appreciate the testimony of those who are testifying
231 today and we will continue to work on this legislation. I don't
232 know if anybody else wants the balance of my time.

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233 But if not, I will yield back.

234 [The prepared statement of Chairman Walden follows:]

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236 *****INSERT 2*****

237 Mr. Upton. The gentleman yields back.

238 The chair would recognize the ranking member of the full
239 committee, Mr. Pallone, for an opening statement.

240 Mr. Pallone. Thank you, Mr. Chairman.

241 Today, we will be discussing bipartisan draft legislation
242 on the future of the Strategic Petroleum Reserve. In December
243 2016, then Chairman Upton and I wrote the Government
244 Accountability Office requesting that GAO review the Strategic
245 Petroleum Reserve as it is currently configured.

246 We asked whether there might be more cost-effective options
247 for protecting against supply shocks and for meeting our
248 international obligations.

249 Most other countries have used contracts with private
250 companies to address these matters. So it's fair to ask whether
251 there might be more efficient and effective ways for us to address
252 our energy security needs in this area.

253 There were a number of reasons why I thought this request
254 of GAO was particularly important in 2016. First, former Energy
255 Secretary Moniz had laid out one vision for modernization of the
256 SPR in the Quadrennial Energy Review that the Obama administration
257 released in 2015.

258 As part of that vision, Secretary Moniz suggested the
259 establishment of more regional refined product reserves, like
260 the Northeast home heating oil and gasoline supply reserves.

261 Second, at the end of 2015, Congress lifted the 40-year-old

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262 ban on crude oil exports and this was done at a time when we were
263 seeing a radical alteration of the transportation fuels
264 landscape.

265 Supply was increasing, demand was decreasing, and we were
266 seeing a rise in electric vehicles.

267 Third, beginning in 2015, Congress had turned to the SPR
268 repeatedly as an offset for deficits, highways, and other items.

269 In fact, it has been used far more in recent years for those
270 purposes than for energy security.

271 And recently, the Trump administration has even been sending
272 signals that it's seriously considering releasing oil from the
273 reserve for the express purpose of lowering gas prices, in my
274 opinion to help Republicans heading into the midterm elections.

275 When you get to the point where an administration is publicly
276 discussing using the SPR for blatantly political purposes, then
277 it is certainly a good time to discuss the future of the reserve.

278 And this discussion is also timely now since we are already
279 requiring the sale of so much oil for nonenergy reasons, which
280 will free up a great deal of physical space in the reserve.

281 We need to consider ways to ensure taxpayers continue to
282 receive value for the salt dome storage caverns and associated
283 facilities that comprise the crude reserve if they are not being
284 used to store oil.

285 The draft legislation that Vice Chairman Barton and Ranking
286 Member Rush are championing is an important first step in

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287 realizing that goal. The draft bill would facilitate the leasing
288 of unused storage space in the reserve while attempting to ensure
289 that government and taxpayers benefit from those leases, and
290 that's important no matter what the future has in store.

291 If we elect to keep the SPR in its current form, the Energy
292 Department will need to repair and upgrade facilities to keep
293 them useful and if we elect to create regional reserves either
294 in addition to or in place of the SPR, we will still need to fund
295 those regional reserves, and this bill will help bring in the
296 revenue we need to do that.

297 There are still questions that need to be answered about
298 this proposal. I want to make sure that the taxpayers see
299 meaningful return on the investment that we made in the SPR and
300 I want to ensure that the government isn't left holding the bag
301 for environmental liability costs while private industry gets
302 all the benefits of the leasing arrangement.

303 So as long as we can get assurances on these two key points,
304 I think moving forward with this pilot project makes a lot of
305 sense.

306 And unless someone else wants the time, I'll yield back,
307 Mr. Chairman.

308 Mr. Upton. The gentleman yields back. Thank you.

309 We are joined, again, by two panels. We will start with
310 Steven Winberg, assistant secretary of fossil energy from the
311 Department of Energy. We welcome you here.

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312 We appreciate you submitting your testimony in advance and
313 if you wouldn't mind taking no more than five minutes to summarize
314 that, at which point we will go into questions, that would be
315 terrific.

316 The time is yours. Thank you.

STATEMENT OF STEVEN WINBERG, ASSISTANT SECRETARY OF FOSSIL
ENERGY, U.S. DEPARTMENT OF ENERGY

Mr. Winberg. Thank you, Chairman Upton, Ranking Member
Rush, and distinguished members of this committee. It's my
pleasure to appear before you to discuss the Department of
Energy's Strategic Petroleum Reserve and the related use of
underutilized SPRO facilities resulting from
congressionally-legislated crude oil sales.

The mission of the SPRO, as has been discussed, is to protect
the United States' economy from severe petroleum supply
interruptions and to carry out U.S. obligations under the
international energy program.

As a member of the International Energy Agency, the United
States has two primary objectives. First, as a net importer,
the United States must maintain crude oil and/or refined product
inventories whether held by industry or government equal to at
least 90 days of net petroleum imports. As of June 30th of this
year, the United States held about twice that amount.

Second, the United States must be able to contribute a
proportionate share of an IEA collective action response based
on its share of IEA oil consumption, which is currently at 41.4
percent.

The U.S. government relies on use of SPRO to meet this
requirement, although commercial stocks may also contribute,

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342 albeit voluntarily.

343 In the event of an international oil supply disruption large
344 enough for the president to authorize the release of the SPRO,
345 U.S. crude oil production alone would not be able to ramp up
346 quickly enough to make up for the lost barrels in a crisis.

347 The SPRO can be ready to deliver crude oil within 13 days
348 of a presidential finding while domestic production would take
349 months to substantially expand.

350 Turning to the proposed legislation, it is expected that
351 the SPRO will have approximately 300 million barrels of unused
352 storage capacity by the end of fiscal year 2027 or, roughly, 45
353 percent of the current design capacity.

354 To that end, DOE is currently conducting the SPRO post-sale
355 configuration study that will recommend the configuration of the
356 SPRO post-2027.

357 This study should be completed within the next six months
358 and understanding the best configuration for the SPRO will guide
359 us as we continue to sell barrels over the next several years.

360 It will also guide us in identifying the SPRO storage caverns
361 or related facilities likely to become underutilized or
362 operationally inefficient, therefore, informing possible
363 decisions concerning site decommissioning.

364 Further, determining the optimum configuration for the SPRO
365 to meet domestic needs will be critical in developing and
366 executing this proposed pilot program.

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367 The department is supportive of maximizing the value of this
368 taxpayer-funded asset and there are a number of issues that need
369 to be considered related to the configuration of the SPRO
370 post-2027.

371 Therefore, we believe it is premature to comment on the
372 operational feasibility of commercially leasing underutilized
373 storage. But I can discuss with you some of the challenges.

374 Further, it is important for both Congress and the department
375 to consider the impact of using government facilities to compete
376 with commercially available petroleum storage capacity.

377 Finally, we need to review the logistical and infrastructure
378 challenges associated with the likely commercial requirement for
379 increased inflow and outflow activities.

380 Accommodating this requirement may require large up-front
381 capital expenditures to enable commercial leasing.

382 I would also like to take this opportunity to discuss the
383 recently released GAO report titled "Strategic Petroleum
384 Reserve." I would like to focus on the one recommendation the
385 department did not concur with. Specifically, we did not concur
386 with the recommendation to conduct or complete studies on regional
387 refined product reserves.

388 It's important to understand that while hurricanes and other
389 natural disasters may create severe short-term logistical
390 constraints for gasoline supplies that therefore impact gasoline
391 prices, these constraints and price increases are quickly

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overcome when a hurricane passes.

This was evidenced by Hurricane Irma in 2017. Even if more gasoline was available in Florida during Hurricane Irma, there would not have been enough trucks or other transportation infrastructure to get the supplies to the retail gasoline stations where they were needed due to, first, increased evacuation traffic and then, later, flooded roads.

So given the cost of above-ground gasoline storage, it would be inappropriate to use taxpayer funds to conduct any additional studies on the use of federally-owned storage of refined petroleum products.

While there is certainly more information about the SPRO that I could discuss, I will refer the committee to my written testimony submitted to the record.

Mr. Chairman and members of the committee, this completes my prepared statement and I am happy to answer any questions.

Thank you.

[The prepared statement of Mr. Winberg follows:]

*****INSERT 3*****

411 Mr. Upton. Well, thank you very much for coming up this
412 morning. I have a couple of questions.

413 My first couple relate to the GAO study that I know that
414 you're familiar with. It was published in May, two months ago.

415 On Page 27, it talks about the DOE could close at least one
416 SPRO site based on the analysis by CBO of projected excess storage
417 capacity.

418 For example, if DOE were to close the smallest SPRO site
419 -- Bayou Choctaw -- the agency could also explore selling the
420 connected pipeline and marine terminal, which is currently being
421 leased to a private company.

422 The DOE could consider leasing excess storage capacity to
423 other countries so that they could store oil at SPRO. DOE has
424 not entered into any such leases with other countries. It has
425 not considered such leases because, according to DOE, the SPRO
426 has historically lacked capacity to store additional oil.

427 DOE has not proposed any of these options or explored the
428 revenue the agency could generate by selling or leasing these
429 assets. According to DOE officials, the agency would examine
430 the feasibility of such options in the ongoing SPRO pool sale
431 configuration study.

432 Does that sound like a potential that DOE would support?

433 Mr. Winberg. Yes. Yes, we would. The first requirement
434 we have under SPRO is to make sure that we are meeting our domestic
435 requirements as well as our IEA requirements.

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436 And so, based on the math and reducing the SPRO by some 300
437 million barrels, I think it's quite possible that we may end up
438 deciding we need to -- we can close one of the sites. Which site?

439

440 We don't know yet, and that's the purpose of the SPRO
441 post-sale configuration study. Completing that study they then
442 will inform us on which caverns we need to keep open, which
443 facilities we need to keep open, so that we can meet those
444 requirements.

445 Not all caverns are alike, and so various of our caverns
446 can discharge oil at faster rates. And so we need to do that
447 study so that we clearly understand what our options are and then
448 also, sir, our options with respect to using these facilities
449 in a commercial nature.

450 Mr. Upton. Now, as you know, we have the father of -- the
451 author of the EPCA bill -- Mr. Barton -- down at the end of the
452 dais here.

453 Officials said that under EPCA -- the Energy Policy and
454 Conservation Act -- it gave DOE authority to lease underutilized
455 storage to other countries but not to the private sector.

456 DOE doesn't currently have the authority to pursue that,
457 according to the agency officials. What is your -- what is the
458 department's view on opening that up -- on making that change
459 to allow the DOE the authority to sell to the private sector as
460 well? Are they supportive of that? Would they --

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461 Mr. Winberg. Yes. Yes, we are supportive. But if I might,
462 there are some technical challenges with doing that. So let me
463 start off with other IEA member companies that also have a reserve
464 requirement.

465 That would be generally for long-term storage. We wouldn't
466 expect to be moving that product in and out of the caverns.

467 In a commercial situation, that may not be the case and the
468 commercial suppliers of oil use the storage and then discharge
469 and then want to inject and discharge.

470 So there is a cycling mechanism, and the challenge with this
471 particular geography or geology is that these were soft caverns
472 and the way we discharge oil out of these caverns is we inject
473 fresh water and that starts to erode the walls of the cavern in
474 the lower part of the cavern.

475 And so if you do that numerous times, you may affect the
476 integrity of the salt cavern.

477 So what we would need to do to go to a commercial operation
478 where they -- we are going to inject and discharge on a very regular
479 basis we would have to go with what we call a brine drive system,
480 meaning we would use saturated brine water and we'd have to store
481 that and then inject that down into the caverns so that we weren't
482 dissolving the walls of the cavern, and we have not yet come up
483 with a cost for doing that.

484 But we know that it is not going to be inexpensive and that's
485 part of the post-sale configuration studies to begin to look at

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486 those costs.

487 Mr. Upton. Great. Thank you. My time has expired.

488 Mr. Rush.

489 Mr. Rush. Assistant Secretary Winberg, will the DOE's SPRO
490 post-sale configuration study, which will be out in -- released
491 in October, examine issues that would help to determine a future
492 optimal size of the SPRO?

493 Will that study make recommendations regarding opportunity
494 to release SPRO storage space to the private sector or to other
495 countries that are now a part of the IEA's collective action?

496 And if not, when can we expect information from DOE on those
497 specific topics of interest?

498 Mr. Winberg. The post-sale configuration study, sir, will
499 indeed address the optimal size for the SPRO to meet -- again,
500 to meet U.S. needs and also our IEA requirements.

501 It will help inform us on what caverns we might be able to
502 use for leasing purposes. As I mentioned earlier, if we are going
503 to lease those caverns to other IEA member countries, it's
504 considerably easier in terms of the mechanics of utilizing that
505 storage.

506 The post-configuration study will not be able to give us
507 complete guidance on what we might be able to do in terms of leasing
508 to the commercial sector. That's going to take some more work
509 beyond the configuration study.

510 And what I would propose we could and should do for the

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511 commercial market is to send out a request for information --
512 an RFI -- and we'd be looking for two, maybe three, basic bits
513 of information: number one, does the commercial marketplace value
514 this asset; number two, in what manner would they like to use
515 the asset, meaning would they want to inject oil and then extract
516 oil on a very frequent basis because then that will help inform
517 us on what upgrades we need to make; and then number three, how
518 does the private sector view the federal government stepping into
519 oil storage leasing business, which has been the domain of the
520 private sector for many, many years.

521 And so those are the three pieces of information that we
522 would want to glean from this RFI. With that information, I think
523 that would help inform us on what type of a leasing program we
524 would want to develop, whether we would want to have the entity
525 leasing the facility to make the investment necessary so that
526 they can inject and extract or whether we make that investment,
527 which would take appropriations, and then factor that into the
528 cost of the lease.

529 So a lot of moving parts there.

530 Mr. Rush. All right. I am going to move on to another area.

531 Can you briefly discuss the disagreement between GAO and
532 DOE regarding the recommendation that the department conduct a
533 cost-benefit analysis for establishing regional product reserves
534 in areas around the country that may be vulnerable to fuel supply
535 disruptions?

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536 Why does DOE disagree with this recommendation and is this
537 disagreement only due to funding issues?

538 Mr. Winberg. It's in part due to the cost but it's in part
539 due to the viability of petroleum -- refined petroleum reserves
540 -- gasoline storage.

541 So let me start with the logistics, and I talked about this
542 in my testimony a little bit. Having regional or even state
543 gasoline storage reserves above ground doesn't necessarily solve
544 the problem because you need to get that stored gasoline to the
545 retail outlets -- the gasoline stations.

546 The problem is when you're in an evacuation situation along
547 the coast -- Florida, I think, is probably a good example of what
548 happened during the Hurricane Irma -- you couldn't get the
549 gasoline from the storage to the retail outlets because the roads
550 were being used for evacuation.

551 Right after the hurricane passed through then the roads were
552 flooded and so having that storage wouldn't have done Florida
553 much good at all -- perhaps none at all.

554 And so we'd be incurring quite a cost in order to maintain
555 regional or state gas reserves around the country. We spend about
556 somewhere between \$10 and \$30 million per year on the Northeast
557 gasoline supply reserve.

558 It currently has about a million barrels of gasoline. And
559 so multiply that by whatever number a regional refined petroleum
560 facilities we might contemplate.

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561 The costs get pretty expensive pretty quickly and we may
562 not be able to use it because of the logistics of getting it to
563 the retail stations.

564 Mr. Upton. Thank you. The gentleman yields back.

565 Mr. Barton.

566 Mr. Barton. Thank you, Mr. Chairman and Ranking Member Rush
567 for scheduling this hearing. I'd like to make a few comments
568 and then I have a few questions.

569 First, I want to thank Congressman Rush for working with
570 me as one of the two lead bipartisan sponsors. Legislation, I
571 think, always is better if it is bipartisan and certainly we,
572 on the majority side, want to make every effort to make this
573 bipartisan.

574 I was very heartened by the opening comments of Mr. Rush
575 and Mr. Pallone. I think -- I think we have got a chance to help
576 the country if this draft becomes, in fact, a bill and is passed.

577 It doesn't change the basic mission statement. It doesn't
578 change the authorized level of the Strategic Petroleum Reserve.

579 Doesn't change the presidential authority.

580 What it does do is add to the mission statement. It gives
581 the secretary of energy the authority so long as it doesn't impact
582 the basic existing mission statement the ability to lease and
583 utilize underutilized capacity of the existing SPR to the private
584 sector for storage and, hopefully, utilization of crude oil.

585 I think that's an important point -- that we are not -- we

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586 are not trying to change the basic statement that was -- became
587 law in the 1970s. We are just trying to adopt the SPR to the
588 modern situation.

589 A couple of questions for our friend from DOE -- what is
590 the authorized capacity currently of the SPR in terms of millions
591 of barrels?

592 Mr. Winberg. The design capacity is 712 million barrels.
593 In 2018 right now we have 660 million barrels and in 2027 we
594 will be down to 405.

595 Mr. Barton. What did Congress authorize the capacity to
596 go up to? I thought we were about 900 million barrels. Is that
597 not true?

598 Well, I can find out. I just thought you might know.

599 Mr. Winberg. I'll get back to you on that.

600 Mr. Barton. Okay. Whatever the authorized capacity is,
601 if I understand you correctly, the existing physical capacity
602 is a little over 700 million barrels. Is that correct?

603 Mr. Winberg. Yes, sir.

604 Mr. Barton. And of that, how much oil is actually stored
605 right now?

606 Mr. Winberg. We have 660 million barrels stored right now.

607 Mr. Barton. Okay. So not -- we are not quite at 100 percent
608 of existing physical capacity?

609 Mr. Winberg. That's correct.

610 Mr. Barton. Okay.

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611 If this draft legislation becomes law, whatever the
612 authorized capacity is -- and let's assume that it is 900 million
613 because I think that's right -- under this pilot program would
614 it authorize the secretary of energy if it meets all the other
615 requirements under the draft legislation to actually add capacity
616 to the SPR so long as it doesn't go above the authorized level?

617 Mr. Winberg. In order to add capacity above the 712, it
618 would take some additional capital investment in the facility
619 to get --

620 Mr. Barton. But there is nothing in the law that would
621 prevent going above what's physically available today. Is that
622 not correct?

623 Mr. Winberg. I believe that's correct.

624 Mr. Barton. Okay. I have one more question. I think --
625 I think I'll yield back.

626 One final comment -- we don't claim -- Mr. Rush and I --
627 that this draft is perfect. If we go through the hearing and
628 there are things that we need to change, I think I speak for
629 everybody on the majority side that we are very open.

630 But I also think I speak for the majority and the minority
631 that we hope that this is something that can move reasonably
632 expeditiously and that means actually end up in a bill the
633 president signs and this Congress.

634 And with that, Mr. Chairman, thank you for your leadership
635 and Mr. Rush's and Mr. Pallone's, and I yield back.

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636 Mr. Upton. The chair would just say that I am delighted
637 that the two of you are working on this. It's something that
638 needs to be done and we look forward to getting this to the
639 president's desk before the year is out, if we can.

640 Mr. Pallone is recognized for an opening statement.

641 Mr. Pallone. Thank you, Mr. Chairman.

642 Mr. Secretary, the idea of establishing regional refined
643 product reserves came out of the first Quadrennial Energy Review
644 and was strongly supported by former Secretary Moniz.

645 And now GAO is also saying we need to look at regional
646 reserves, particularly in the Southeast and the West and I, too,
647 think that regional refined product reserves needs to be a part
648 of any SPR modernization effort.

649 Now, you can correct me if I am wrong. But you mentioned,
650 I believe, that the Trump administration seems hostile to the
651 concept. In fact, President Trump had proposed doing away with
652 the Northeast gasoline supply reserve, which had been created
653 administratively by President Obama in response to the dangerous
654 shortages that occurred in the wake of Superstorm Sandy, including
655 in my area of New Jersey.

656 And, frankly, I think this administration's attempt to undue
657 the Northeast reserve is reckless and that's why I introduced
658 legislation to establish that reserve in statute.

659 But it seems like everybody but the Trump administration
660 sees the benefit establish regional reserves and particularly

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661 one in the Southeast, where states like Florida, Georgia, South
662 and North Carolina are extremely supply constrained, and those
663 states are really vulnerable in the face of an extreme weather
664 event. Yet, this administration and you, I think, said don't
665 want to take any action on that.

666 So can I just ask you, Mr. Assistant Secretary, you said
667 that the price of gasoline I think -- you can correct me -- I
668 think you said that the price of gasoline goes back to normal
669 soon after a storm like Sandy or Irma.

670 What is that based on? I mean, that wasn't true in New Jersey
671 after Sandy. Did I misunderstand you? I thought that's what
672 you said, as one of the reasons why it wasn't necessary to have
673 these regional reserves.

674 Mr. Winberg. The -- the first point, I wouldn't
675 characterize the administration's position as hostile against
676 the gas reserves.

677 What I talked about before -- what I talked about in my
678 testimony is, A, the cost of these gasoline reserves, and I used
679 --

680 Mr. Pallone. Yes. You said they would cost the government
681 too much and -- I mean, my understanding is I just -- we only
682 have two and a half minutes -- my understanding you said that
683 you were not supportive of it or the administration wasn't because
684 the price of gasoline goes back quickly after a storm like --
685 you know, like Sandy -- I think you said Irma.

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686 And then you also said that the regional reserves would cost
687 the government too much. So that -- I am just asking you what
688 those two things are based upon because I am wondering -- wouldn't
689 the same argument be used against the existing SPR? Why are you
690 saying -- I don't believe it's true that the price goes up quickly
691 right after and I don't believe that this is going to cost the
692 government too much -- certainly, less than it costs to maintain
693 the SPR.

694 I am just challenging those two statements. That's all.

695 Mr. Winberg. I can address the pricing issue with respect
696 to Hurricane Irma. The prices came back down to relatively normal
697 levels.

698 I can't speak to every gasoline station around Florida.
699 But as the product moved back into the state and retail stations
700 were opening back up again, there was competition and prices
701 reflected that.

702 I think that the bigger issue is that if we set up reserves
703 and we have these fairly sizeable storage areas and we can't get
704 the gasoline to the retail outlets because of congested roads
705 due to evacuation and then flooded roads, then it is an expense
706 that's not really serving the public good.

707 Mr. Pallone. But what I was arguing -- see, look, I
708 understand what you're saying in all these cases. But I just
709 would like to know, you know, what that's based on.

710 In other words, my experience in Sandy which, admittedly,

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711 is only one hurricane, is that the price -- it does take a while
712 before the price goes back to normal and that I don't know why
713 it would cost more to have these regional reserves, you know,
714 significantly more than it does to maintain the SPR.

715 I mean, I guess you argue maybe that you -- I am not saying
716 we shouldn't have an SPR but I think the costs of the regional
717 ones would actually be less. And it seems like everybody's
718 suggesting that this is a good idea.

719 There is going to be some cost to the government, but I'd
720 just like to know -- you know, if you get back to me, tell me,
721 you know, what's the evidence that the price goes back quickly?

722
723 Why are you saying it's going to cost so much and now you're
724 saying that they can't bring it to the -- to the gas stations.
725 That's not my experience.

726 So I just want you to get back to us and -- either now or
727 get back to us and explain what these -- you know, what this is
728 based on because it seems to be contrary to everything I've heard.

729 Mr. Winberg. We will be happy to get back to you with some
730 specific cost numbers an utilization.

731 Mr. Pallone. All right. I'd appreciate it.

732 Thank you, Mr. Chairman.

733 Mr. Upton. Mr. Olson.

734 Mr. Olson. I thank the chair and welcome, Mr. Winberg, and
735 please give your boss, Secretary Rick Perry, my best. It's not

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736 very good, but it's my best.

737 Mr. Winberg. I will do so.

738 Mr. Olson. He will know where that comes from.

739 The SPR is important back home in Texas-22 in southeast
740 Texas. You mentioned the status of your modernization program.
741 Could you please talk about the most important steps DOE can
742 take in this next year to continue to improve the readiness of
743 the SPR?

744 Mr. Winberg. Yes, sir, I can. Thank you.

745 One of the steps that I mentioned already is the post-sale
746 configuration study and then the second one is we have -- we are
747 developing the Life Extension program.

748 We are in the process of pulling that together and the Life
749 Extension program is going to allow us to continue to meet our
750 needs under IEA, number one.

751 And then, number two, the Life Extension program will focus
752 on those assets that we are going to continue to need post-2027.
753 That's the primary role of the Life Extension program.

754 Mr. Olson. The second question, sir -- as you know, Texas
755 oil production is booming. The Permian Basin itself is projected
756 in a few years to produce more oil than every country in the world
757 except for Saudi Arabia.

758 One oil plain in Texas takes over all the world except for
759 one country -- Saudi Arabia. A lot of that crude has to go to
760 export -- go to the Gulf Coast ports -- goes to either Corpus

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761 Christi, Houston, Port Arthur, Beaumont -- all those ports --
762 Brownsville -- goes there for refining and export.

763 If we pass this discussion draft before us, do you think
764 the oil industry will view the SPR sites on the Texas Gulf Coast
765 as a good holding site for their oil and are their needs looking
766 more shorter term than what the SPR is designed for?

767 Mr. Winberg. The answer to your first question, we are not
768 yet sure how the commercial market is going to view this government
769 asset -- the SPRO and our ability to potentially store oil for
770 the commercial sector.

771 That's part of the RFI -- the request for information that
772 we are going to send out so that we can better understand what
773 the commercial industry needs and wants and whether the SPRO will
774 fulfill that requirement.

775 So when -- as we get that information I'll be happy to meet
776 with the committee or meet with you individually --

777 Mr. Olson. Thank you.

778 Mr. Winberg. -- and give you the results of the study.

779 Mr. Olson. Thank you.

780 My final question -- as we had these SPR drawdowns over and
781 over and over -- June of 2011, 30 million barrels of oil; August
782 of 2012, 1 million barrels of oil; November of 2015, 58 million
783 barrels; December 2015, 66 million barrels; January 2017, 8
784 million barrels -- over and over.

785 I am curious to hear how about the state of the SPR is with

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786 all these draw downs. Specifically, how much -- we have a lot
787 of light crude here at home.

788 Are you happy about the balance between light crude and heavy
789 crude in the SPR and the balance between sweet and sour oil?
790 I know there is lots of people concerned especially about heavier
791 crude with a supply disruption because of this wave of sweet crude
792 and light crude. Any concerns about the SPR's makeup with those
793 issues, sir?

794 Mr. Winberg. Well, we are going to -- I don't have any
795 particular concerns about them. But that is part of the post-sale
796 configuration study to evaluate sweet crude versus sour crude
797 and what percentage we should have of both of those, given the
798 changing dynamics in the -- of oil production here in the United
799 States. But I don't have any particular concerns about them right
800 now.

801 Mr. Olson. My time is about to expire. I yield back.
802 Thank you.

803 Mr. Upton. Mr. McNerney.

804 Mr. McNerney. Well, I thank the chairman for holding the
805 hearing and I thank Mr. Barton for your work on it. I thank the
806 witnesses for your thoughtful answers so far.

807 Similar to the Northeastern gasoline supply reserve, what
808 do you think about establishing a reserve in the West for hurricane
809 preparedness and other sorts of emergencies that we have out
810 there, as opposed to hurricanes, which we won't have?

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811 Earthquakes.

812 Mr. Winberg. I think the same issues that we have -- our
813 concerns about our ability to develop a surface reserve and then
814 get that product in that surface reserve to the market where it's
815 needed or --

816 Mr. McNerney. Well, I mean, you don't have a lot of warning
817 for earthquakes so you don't have an evacuation problem.

818 Mr. Winberg. Well --

819 Mr. McNerney. You have some roads disrupted but, I mean,
820 I think it's a better case to be made in the West where we could
821 have those difference sorts of emergencies.

822 Mr. Winberg. That's true. But if we have an immediate
823 earthquake situation, there is some road damage --

824 Mr. McNerney. Right.

825 Mr. Winberg. -- that means that the gasoline can still
826 move in through the normal infrastructure and transportation
827 mechanisms that it would. There may be some that would be cut
828 off, depending on where the earthquake --

829 Mr. McNerney. Right.

830 Mr. Winberg. -- happened and the effect of it and how many
831 roads or rails might be damaged. But, generally, there are
832 multiple routes into an urban area or a suburban area where there
833 is --

834 Mr. McNerney. So we have a pretty good case to be made for
835 establishing those reserves -- the product reserves in the West?

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836 Mr. Winberg. I am sorry. Say that again.

837 Mr. McNerney. We have a pretty good case to be made then
838 for establishing those reserves in the West?

839 Mr. Winberg. Well, I think if you had limited damage to
840 road or railroad infrastructure then you'd have to look at the
841 cost of establishing that reserve and maintaining it and whether
842 it would provide a lot of value in the case of -- in this example
843 of an earthquake situation.

844 Mr. McNerney. Okay. Changing the subject a little bit,
845 what about the challenges with respect to the infrastructure of
846 the existing SPRO facilities?

847 My understanding is that the extraction network
848 infrastructure was aging and not in very good shape. We have
849 the degradation of the caverns when you recycle -- when you put
850 in that water to push out the oil and so on.

851 Can you talk a little bit more about that existing
852 infrastructure?

853 Mr. Winberg. Sure, and I think there is two parts to the
854 infrastructure. One is the subsurface and then the other is the
855 surface.

856 And on our Life Extension program, that we are involved in
857 right now, mostly that is surface infrastructure. So we are
858 talking about pipes, pumps, and motors and that type of
859 infrastructure.

860 And so we have got a program in place to upgrade that because,

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861 as was mentioned earlier, the SPRO has celebrated it's 40-year
862 anniversary last year.

863 The subsurface infrastructure, while we have had a number
864 of withdrawals, the caverns are generally good for about five
865 withdrawals and then refills before you start to see a lot of
866 degradation.

867 And so part of the assessment that we are looking at in the
868 configuration study is the stability of the caverns, how much
869 erosion -- well, it's not erosion. It's really --

870 Mr. McNerney. Well, I mean, five cycles doesn't sound like
871 a lot if we are going to be leasing out space.

872 Mr. Winberg. Well, those are the cycles given -- that's
873 how the -- what the caverns were designed for. If we leased it
874 out under commercial operation, we might see considerably more
875 than that because people store oil and they use it as a hedge.

876
877 The price goes up, they are going to want to withdraw, and
878 then they are going to want to reinfect. So it could happen many,
879 many times, not -- which is our concern about the integrity of
880 the caverns.

881 Mr. McNerney. What happens to the water when you inject
882 water to pressurize release? What happens to that excess water?
883 Does it just get absorbed into the landscape?

884 Mr. Winberg. The water stays down into the -- in the cavern
885 and if we refill it then we would extract the water.

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886 Mr. McNerney. So it's --

887 Mr. Winberg. Then we have to -- we have to treat the water.

888 Mr. McNerney. Is it better to be at 100 percent capacity
889 or is it better to be 90 percent capacity or some lower value?

890 Mr. Winberg. Operationally, it's probably always better
891 to be somewhere in the 90 to 100 percent. But there is a cost
892 associated with being at that capacity level. You're storing
893 oil in a lot of facilities.

894 Mr. McNerney. All right. I thank the chairman. I yield
895 back.

896 Mr. Upton. The gentleman yields back.

897 And before we move to Mr. Shimkus, Mr. Barton will have a
898 brief announcement here.

899 Mr. Barton. I have a point of personal privilege. In the
900 back of the room, my grandchildren -- two of my granddaughters
901 and my two daughters and their significant others are watching
902 the hearing and, in typical millennial fashion, they are sitting
903 on the minority side of the room.

904 [Laughter.]

905 If they would stand up and let us acknowledge their presence.

906 [Applause.]

907 Mr. Upton. Maybe we will let Mrs. Rush give them a call
908 as well.

909 [Laughter.]

910 Mr. Shimkus.

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911 Mr. Shimkus. Thank you, Mr. Chairman.

912 Mr. McNerney's just leaving but I wanted to follow up on
913 some of his comments because they had raised maintenance as an
914 issue and this was going to be my third question. But I am going
915 to bring it up just in the timely manner that he addressed it.

916 The GAO reported that the SPRO had experienced at least five
917 major equipment failures since 2013 including a major pipeline
918 failure that shut down the Big Hill site for five years.

919 Could leasing underlie SPRO capacity help offset the cost
920 of operations and maintenance?

921 Mr. Winberg. Yes, and under two different scenarios. One,
922 we might make the upgrades and then roll that in to the price
923 of the lease or -- but that would require appropriations.

924 Another option, of course, is to have the entity leasing
925 the space to make those upgrades.

926 Mr. Shimkus. Yes. Based on my experience with the
927 appropriation committees, I wouldn't encourage the first course
928 of action. I would think that maybe in the leasing agreement
929 of upgrades that would be a more straightforward process. But
930 that's me.

931 We also -- it was also talked about a little bit earlier
932 in the question and answers about spare caverns and I think you
933 -- being able to, in essence, lease those out and there was some
934 interest to that.

935 Did I understand that question and answer process? Another

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936 member mentioned about excess space in other caverns and the
937 ability to, you know, lease that out to private entities.

938 Mr. Winberg. Yes. Congressman, we have not yet tested the
939 market, if you will, on commercial interest in leasing the space.

940 That would be the subject of the request for information that
941 we will be sending out.

942 Mr. Shimkus. Let me -- let me also talk about there has
943 been some debate about the refined product reserves that are
944 established and I think there is a cost to doing this, right?

945 A financial cost of setting these things up.

946 Mr. Winberg. Yes.

947 Mr. Shimkus. Do you know what it is for the East coast
948 refined product?

949 Mr. Winberg. Yes. It's -- we spend between \$10 and \$30
950 million a year for, roughly, a million barrels of gasoline.

951 Mr. Shimkus. That's per year?

952 Mr. Winberg. Yes, sir.

953 Mr. Shimkus. So I think it's credible for us to have the
954 debate of a cost benefit analysis. If we are spending that much
955 millions -- \$25 million a year for 1 million of refined product
956 versus the timeliness of transportation and the access, I think
957 that's where the debate is. Everybody would like to have a
958 refined reserve available next door for disruption.

959 In the Midwest, we have tornadoes and things go down and
960 power goes off. But the question is, is \$25 million for 1 million

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961 -- I don't think that makes financial sense.

962 So let me go to -- I wanted to raise that. The last thing
963 I want to address is U.S. will become a net energy exporter by
964 2022. That's the expectation. Do you agree with that?

965 Mr. Winberg. Yes, sir. I do.

966 Mr. Shimkus. Do you think there is a need for a strategic
967 petroleum reserve. I mean, I was a big supporter of this years
968 ago when we were worried about the -- our enemies around the world
969 shutting off the sea lanes because we were importing our crude
970 oil.

971 But if we are a net exporter does that even lend to the
972 question of whether we need a SPRO?

973 Mr. Winberg. I think it's difficult to forecast what kind
974 of geopolitical challenges we might have --

975 Mr. Shimkus. Well, if we listen to Olson, Texas is going
976 to supply the whole world. So I --

977 Mr. Winberg. But there is also the hurricanes and other
978 --

979 Mr. Shimkus. And I would think that more speaks to pipelines
980 and diversification of a refinery basis and I think that's
981 occurring as we speak right now, too, with, you know, North Dakota
982 and some other places where we are having that occurring.

983 So those are just questions I pose. It's great to have you
984 here. We live in, you know, some exciting times. Whoever
985 thought that we'd be exporting crude oil and exporting liquefied

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986 natural gas, and we all know the benefits for that just for our
987 balance and our income or the trade balance but also for our allies
988 who, in some places around the world, are being held hostage by
989 foreign powers who really don't like us that much.

990 So I appreciate it. Send my regards to the department and
991 with that, Mr. Chairman, I yield back.

992 Mr. Upton. Mr. Green.

993 Mr. Green. Thank you, Mr. Chairman. Thank you for being
994 here.

995 You have a couple Texans on the committee, both Republican
996 and one Democrat. But I have a district in east Harris County
997 and so the salt domes that are created are there in Chambers County
998 all the way through southeast Texas.

999 This Congress and previous Congresses have chosen to sell
1000 oil from the SPRO since 2015. The cumulative sale of these
1001 barrels -- 250 billion barrels -- could occur about 2027. Is
1002 that correct?

1003 Mr. Winberg. Yes, sir.

1004 Mr. Green. Okay. And leave us with the expected inventory
1005 of 410 million barrels?

1006 Mr. Winberg. 405.

1007 Mr. Green. 405. Okay. I know we talked about it one time.

1008 Over the years the SPRO had as much as 500 -- I mean, 725 million
1009 barrels. Is that correct?

1010 Mr. Winberg. Yes. Well, I think the capacity is 712

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1011 million barrels.

1012 Mr. Green. Okay. The -- although the authorization or the
1013 intent was to have a billion barrels?

1014 Mr. Winberg. Yes, I believe that's correct.

1015 Mr. Green. Back when it was created. You know, with what's
1016 happening today in the energy market I can't imagine us -- are
1017 we buying crude oil into the SPRO now?

1018 Mr. Winberg. No, we are not.

1019 Mr. Green. Okay. And because as a Texan, you want to buy
1020 it at 30 and sell it for 70 and so I would hope we would not be
1021 buying \$70 a barrel oil.

1022 One of the concerns I have is that during the Hurricane Harvey
1023 that was last year, Hurricane Ike that was 2008, even Katrina,
1024 because part of the SPRO goes into southwest Louisiana, has the
1025 storage facilities been damaged because of these hurricanes?

1026 Mr. Winberg. I think there was some surface damage but that
1027 damage has been repaired and the SPRO is fully capable of meeting
1028 its withdrawal requirements.

1029 Mr. Green. Okay.

1030 When the -- this crude oil is selling from SPRO on the open
1031 market, do you have any idea who's buying it? Is it -- you know,
1032 because I have five refineries in east Harris County that
1033 typically uses the heavier crude still, although they are
1034 retooling now because of the lighter sweet coming.

1035 Is it typically local refineries that are buying that or

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1036 are they other countries or anything else that you know of --
1037 anyone who sells oil from the SPRO?

1038 Mr. Winberg. We do know who's buying the crude and I don't
1039 have the specifics here with me but I am happy to get that
1040 information to your office with respect to whether it was domestic
1041 or international purchases.

1042 Mr. Green. You know, at one time, I think people would be
1043 concerned about someone from another country that's not an ally
1044 buying our crude oil.

1045 But since we are exporting crude oil now from everywhere
1046 I can imagine on the Gulf Coast in Texas and Louisiana, that's
1047 probably not a big issue.

1048 Is the -- does U.S. or the DOE SPRO post-sale configuration
1049 study -- has it been completed?

1050 Mr. Winberg. No, sir. It's underway right now. We expect
1051 we will complete it this autumn.

1052 Mr. Green. Okay. The SPRO is a lot of different sites in
1053 the salt dome because some of that salt dome underneath southeast
1054 Texas and Louisiana may have to be qualified or, you know, for
1055 -- how would we expand to get -- if we wanted to get to a billion
1056 barrels, how could we do that? Is it engineeringly possible?

1057 Mr. Winberg. Yes. Yes, we could develop more storage
1058 capacity. If we ended up selling into the commercial market and
1059 we needed to develop the brine drive system so that we could plug
1060 the caverns and then reinject oil, we would need some additional

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1061 caverns for the brine storage system.

1062 Mr. Green. We are currently required to maintain a 90-day
1063 supply of crude oil and, currently, we have a supply of about
1064 170 days. Is that correct?

1065 Mr. Winberg. Yes, sir. I think that's correct.

1066 Mr. Green. In DOE's opinion, are the current level of
1067 reserves adequate for future potential disruptions?

1068 Mr. Winberg. Yes, sir.

1069 Mr. Green. Okay. And, again, the market has changed so
1070 much because, literally, just down the road we are seeing a lot
1071 of crude oil produced. Although, again, it's typically lighter
1072 sweet than compared to the heavier crude.

1073 Mr. Chairman, I appreciate you having this hearing on the
1074 oversight. This is kind of in the neighborhood for those of us
1075 in southeast Texas. So we have a big interest in it.

1076 Thank you for being here.

1077 Mr. Winberg. Thank you.

1078 Mr. Upton. Mr. McKinley.

1079 Mr. McKinley. Thank you, Mr. Chairman, and thank you for
1080 the sponsors of this legislation to consider that.

1081 Mr. Winberg, you've -- some of your testimony has just raised
1082 more questions for me as a result. The one was your testimony
1083 -- you talked about the annual cost for this -- the gasoline
1084 reserve we have in the Northeast at about \$25 to \$30 million a
1085 year.

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1086 But I remember a few years ago we were having that discussion
1087 about this because it was done not by legislation but by -- through
1088 the administration, that as one of the discussions we have to
1089 replenish that -- that you can't -- gasoline does not have a shelf
1090 life very long.

1091 So do you -- is it physically empty and restored? How do
1092 you -- how is the mixture so that we know the age of that gasoline
1093 there?

1094 Mr. Winberg. We do roll the gasoline, Congressman. I don't
1095 know specifically how many turns we do. But I can find out for
1096 you.

1097 Mr. McKinley. I am just curious because if crude is selling
1098 for \$70 a barrel but you're selling refined product at only \$30
1099 a barrel, something's wrong with the math here. You must not
1100 be emptying it entirely and using it.

1101 So we can have more of a conversation. I am just curious
1102 to see how that's functioning there. Also, you talked about the
1103 five -- perhaps you can cycle about five uses or draw down about
1104 five times out of the salt dome.

1105 But if we go to this process -- this is what I am having
1106 a little concern with -- by leasing it out to other entities and
1107 then you indicated that perhaps they might want to draw down more
1108 often than five.

1109 Do you see a possibility that you will have them posting
1110 bonds or some kind of verifications that they pay for the repairs

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1111 to the salt dome if that -- other security so that someone with
1112 an outside interest could cause us to lose the integrity of our
1113 salt storage?

1114 Mr. Winberg. We believe we have a technical solution for
1115 the problem and that technical solution would be what we are
1116 calling the brine drive system.

1117 So rather than injecting fresh water into the salt cavern
1118 to lift the oil, we would inject a saturated brine solution.

1119 Mr. McKinley. I heard you -- I'd like to know a little bit
1120 more about that. I heard you talk about some additional brine
1121 that you had put back into that. That was interesting.

1122 How do you verify -- because we got the problem with the
1123 ethane storage hub up in the Appalachian area -- how do you verify
1124 the thickness of the walls of the salt dome in an existing while
1125 it's in operation?

1126 How are you doing that so that you could make a determination
1127 maybe five years it could reach its life? How do you verify that?

1128 Mr. Winberg. That's a great --

1129 Mr. McKinley. The extent of their degradation.

1130 Mr. Winberg. That's a great question and, Congressman, I
1131 don't know the answer. But I will get back to you and let you
1132 know specifically what testing mechanisms we use to determine
1133 --

1134 Mr. McKinley. Just one engineer to another engineer. I
1135 am just curious how you're going to do that.

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1136 And the last is more about security. I've never really
1137 actually seen a map that showed where our salt domes are located
1138 until today. I didn't want to know where they were.

1139 But if I know now, hostile actors can know where those salt
1140 domes are, and if they are that important to our national security
1141 why would we ever put it on a map where those things are?

1142 Mr. Winberg. Well, these are pretty large facilities and
1143 so people know where they are. They are very secure --

1144 Mr. McKinley. My point, again -- how secure are they? If
1145 someone got -- we had that -- we lost -- at the Greenbriar we
1146 used to have a bunker there for congressmen to go hide until
1147 someone revealed where it was and then that -- we had to do away
1148 with that.

1149 Now we are revealing all -- where all these are -- our
1150 strategic reserve is -- 600 million barrels of gas or crude oil.
1151 The bad actors know exactly where that is. So if we had to
1152 abandon the Greenbriar what are we doing here?

1153 Mr. Winberg. Well --

1154 Mr. McKinley. How secure is it?

1155 Mr. Winberg. Yes. We have an ongoing security program and
1156 so we are updating it, both physical security as well as
1157 cybersecurity. You know, we are opening up a new office in DOE,
1158 the CESER, which is going to address the cyber issues.

1159 The physical security issues that --

1160 Mr. McKinley. It's not the cyber. I am talking about

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1161 something a bad actor -- I don't -- I don't know that we have
1162 an Iron Dome outside these things. So I am just curious how we
1163 are going to protect them.

1164 Mr. Winberg. Well, they are fenced in. We have guards,
1165 guns, and gates.

1166 Mr. McKinley. I yield back. Thank you.

1167 Mr. Olson. [Presiding.] The gentleman yields back.

1168 The chair notes for the record that the Greenbriar is doing
1169 just fine because this week the Houston Texans started their
1170 practice for the football season at the Greenbriar.

1171 The chair now calls upon Dr. Bucshon for five minutes.

1172 Mr. Bucshon. Thank you, Mr. Chairman.

1173 Mr. Winberg, we spend more than \$200 million per year on
1174 SPRO management and operations, yet most of the equipment is
1175 beyond its serviceable life and there is a growing backlog of
1176 deferred maintenance.

1177 For example, GAO reported that this -- that the SPRO has
1178 experienced at least five major equipment failures since 2013,
1179 including a major pipeline failure that shut down the Big Hill
1180 site for five weeks.

1181 You're talking about changing to a brine-related way to
1182 extract oil. I mean, it seems like we need to catch up on this
1183 maintenance first.

1184 What's been the reason why we are -- there is a backlog of
1185 deferred maintenance and all the equipment is beyond its

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1186 serviceable life and is there -- what can we do about it?

1187 Mr. Winberg. I think the backlog is because we didn't have
1188 appropriations sufficient to keep the facility in optimal
1189 operating condition. We now have our --

1190 Mr. Bucshon. Okay. I am just going to interrupt you there
1191 for a second because that's the -- that's the -- I think that's
1192 the answer we get from every federal agency no matter anytime
1193 we ask this question.

1194 But the appropriations -- what specifically -- were there
1195 requested appropriations that didn't get appropriated? Were
1196 there no appropriations or, I mean, there is more -- there is
1197 more to it than that, I would imagine.

1198 Mr. Barton. Would the gentleman yield?

1199 Mr. Bucshon. I will yield.

1200 Mr. Barton. I don't want to speak for the Department of
1201 Energy, but the draft legislation allows, without going through
1202 the appropriation process, funds generated by using this facility
1203 for private purposes to be used for maintenance of the facility.

1204 So we have tried to solve that problem in the legislation before
1205 us.

1206 Mr. Bucshon. Thank you, Mr. Barton, because that -- I am
1207 getting to -- that's going to be my next -- one of my next
1208 questions.

1209 So it sounds like we have -- probably had an appropriations
1210 issue over the years. I get that, and it seems like we need to

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1211 address that.

1212 So the question, and is a follow-up to what Mr. Barton just
1213 said, could leasing underutilized space, capacity, help offset
1214 the cost of operations and maintenance?

1215 Mr. Winberg. Yes, I think it could. Again, we need to test
1216 the -- we need to query the market and find out what value they
1217 place on this storage and what they are willing to pay for it.

1218 Mr. Bucshon. Yes. So potentially this draft legislation
1219 could help us solve what appears to be a long -- probably a
1220 long-standing issue with our maintenance and serviceable life
1221 of our equipment being at the end of its serviceable life if we
1222 find more money and put that into operation and maintenance.

1223 Also, most of the time it sits idle, could some of the spare
1224 caverns -- and I think you went over this and the answer is yes
1225 -- be commercialized in such a way to improve its overall
1226 operational readiness?

1227 Mr. Winberg. Absolutely. Yes, sir.

1228 Mr. Bucshon. And you described some of that -- I was
1229 interested in the fact that on a commercial basis you'd have to
1230 have more going in and out all the time, right? Couldn't you
1231 -- could you isolate that to the commercial space versus the
1232 noncommercial space?

1233 So you're not talking about the entire -- the entire reserve
1234 being accessed all the time. Were you talking about a way to
1235 cordon off, so to speak, what we would -- what we could utilize

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1236 and in that way the caverns wouldn't -- of the whole reserve
1237 wouldn't be at risk.

1238 Mr. Winberg. That's correct. We would -- we would utilize
1239 the brine drive system in those caverns where we were discharging
1240 and refilling on a frequent basis for commercial purposes.

1241 Also, I spoke earlier about leasing this -- some of the space
1242 to other countries that are members of the IEA activity and in
1243 that case then those countries would not be withdrawing and
1244 injecting on a routine basis, and by having that capacity our
1245 overall costs likely would go down because we would have more
1246 oil stored so you'd spread the cost out over --

1247 Mr. Bucshon. Right. So we would do that on a build-out
1248 basis or they would pay for it or we'd build out what they need
1249 or they'd pay for that?

1250 Mr. Winberg. Well, I think we would utilize the excess
1251 capacity we have and if there was a big enough market I think
1252 we could look at building out additional. But we are going to
1253 have 300 million barrels of capacity when we finish the draw down
1254 in 2027.

1255 Mr. Bucshon. Understood.

1256 Thank you, Mr. Chairman. I yield back.

1257 Mr. Olson. Thank you.

1258 Mr. Duncan, five minutes for questions, sir.

1259 Mr. Duncan. Thank you, Mr. Chairman.

1260 You know, there is no doubt that demand for oil is much

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1261 greater now than when the SPR was originally developed, and I
1262 wonder is the SPR big enough to have an impact in the case of
1263 a real crisis in the 21st century. Is it big enough?

1264 Mr. Winberg. I think it probably is big enough.

1265 Mr. Duncan. Is it storing enough?

1266 Mr. Winberg. I think it is storing enough right now. As
1267 we move into 2027, we are going to be very close to meeting our
1268 IEA requirements. In fact, we --

1269 Mr. Duncan. Have you all looked at the demand as it -- as
1270 it applies in the 21st century here and 2018, right, or --

1271 Mr. Winberg. Yes, we have. But a balancing factor for
1272 that, of course, is that we have much more domestic production
1273 and that domestic production, while it takes several months to
1274 come online, it's much quicker than it was before the
1275 unconventional oil plays became commercial in the United States.

1276 So we are down to four or five or six months to get wells
1277 online as opposed to --

1278 Mr. Duncan. Well, let me -- just let me ask you this. In
1279 your opinion, has SPR been used effectively over the past four
1280 decades to respond to oil price volatility?

1281 Mr. Winberg. I believe it has, yes.

1282 Mr. Duncan. Has been used effectively? Okay.

1283 Has it been appropriately used as a tool to balance supply
1284 and demand?

1285 Mr. Winberg. I don't think it's -- that's not its purpose

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1286 to balance --

1287 Mr. Duncan. I remember the oil shortage in the 1970s and
1288 since then we really haven't had a true oil shortage. We have
1289 had price volatility, right?

1290 So given the change in landscape, the fact that the United
1291 States is now a net exporter, do you see the SPR being able to
1292 balance the supply and demand or even necessary to balance the
1293 supply and demand when we have an abundant supply?

1294 Mr. Winberg. Well, the purpose of the SPRO was never to
1295 balance supply and demand but, rather, its purpose was to be there
1296 in the event that there was a -- more of a crisis situation rather
1297 than short-term supply and demand imbalances.

1298 And so that was its purpose. That still is its purpose,
1299 and I think where we are right now, even with the draw downs,
1300 given the fact that we have much more domestic production and
1301 that production can come on much quicker, I think that we have
1302 sufficient reserves and sufficient capacity with the SPRO.

1303 However, getting to an earlier question, we do need to
1304 upgrade it and maintain mostly the surface facilities but also
1305 subsurface facilities to make sure that we can meet the --

1306 Mr. Duncan. Let me ask your opinion about -- Congress has
1307 sold off some of the SPR in order to cover deficits and when we
1308 have had some of these crisis since I've been in Congress -- eight
1309 years -- it also seems like we always sell it for a lot less than
1310 we paid for it, and that's kind of opposite of buy low sell high,

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1311 right?

1312 That's the first thing. Who manages what price point we
1313 purchase or replenish? If you've got a high-value asset that
1314 you paid less for, do you all play the market in that regard and
1315 sell it at a higher price and buy it again at a lower price to
1316 help the American taxpayer?

1317 Mr. Winberg. When we have a release we do it under an auction
1318 mechanism. So we get the highest price that the market's willing
1319 to pay.

1320 Under some releases, we -- where we have a test sale, for
1321 example, then whoever buys that oil has to replenish that oil
1322 plus an additional amount of oil.

1323 So in that manner, we are paying for the cost of extracting
1324 oil from the facility. But the SPRO and the operation of the
1325 SPRO does not play the market, per se. We do it through an auction
1326 mechanism.

1327 Mr. Duncan. Mr. Chairman, 30 seconds I've got left.

1328 Since I've been in Congress, we have used the SPR as an
1329 opportunity to offset spending with cut-go or whatever, and that's
1330 wrong. This is a strategic petroleum reserve to help us in the
1331 time of a crisis and oil shortage or restriction of the flow of
1332 oil by OPEC like we saw in the late 1970s.

1333 And I am always going to argue that this Congress and this
1334 government should not use this as a pay for. It should be used
1335 as it's designed.

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1336 But we also ought to manage it -- if you've got a bulk asset
1337 that you've got a high basis on sell it -- buy it low and help
1338 the American taxpayer.

1339 With that, I yield back.

1340 Mr. Olson. Thank you.

1341 Mr. Tonko, are you ready, sir? Are you ready? Five minutes
1342 for questions.

1343 Mr. Tonko. Thank you, Mr. Chair.

1344 Mr. Winberg, can you provide us with an update of DOE's
1345 current modernization plan and how great is the need to invest
1346 in the infrastructure in order to keep it operating effectively?

1347 Mr. Winberg. Yes. We -- to answer the second part of your
1348 question, I think the need is pretty great. This facility, as
1349 we have talked about, is over 40 years old.

1350 The last major upgrade was about 25 years ago. So we have
1351 piping, pumps, and valves that need to be replaced on the surface.

1352 So the need is pretty great. We have got a Life Extension
1353 program and we are developing that program so that, A, we can
1354 best handle the legislatively mandated sales, and then, B, the
1355 Life Extension program is being designed so that we can upgrade
1356 our systems to allow the SPRO to operate post-2027 for an
1357 additional 25 years.

1358 Having said that, the Life Extension program on the way it's
1359 been designed has enough flexibility so that if we decide we are
1360 going to lease space to other countries or commercial leases,

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1361 we have got enough flexibility in the program so that we can adjust
1362 it so that we are not using taxpayer dollars to upgrade systems
1363 that perhaps someone leasing would pay for.

1364 Mr. Tonko. Thank you.

1365 And do you believe there is private sector demand for SPRO
1366 capacity?

1367 Mr. Winberg. That's a great question, and we don't know
1368 the answer to that yet. What we are planning to do is send out
1369 a request for information on RFI out into the marketplace and
1370 what we want to find out is, A, is there a need for government-owned
1371 storage in the commercial market; B, how would they utilize that
1372 storage space if we leased it to them; and then, C, are there
1373 concerns or issues with the government leasing space in a market
1374 that has mostly been done by commercial entities.

1375 Mr. Tonko. So and how would it compare to existing storage
1376 options -- for example, a tank storage or --

1377 Mr. Winberg. Right. We don't yet know the answer to that
1378 question either. That will be informed by the RFI. Once we know
1379 how private industry might want to utilize this storage, then
1380 we can put a cost, because there will be some capital needed in
1381 order to facilitate commercial activities.

1382 Mr. Tonko. And do you believe there is an opportunity to
1383 use the revenues raised by commercial leases to invest in
1384 modernization to benefit the public's use of SPRO?

1385 Mr. Winberg. I think there might be. But, again, we will

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1386 -- we are a little bit early in the process to know that right
1387 now.

1388 But that's, certainly, the hope, and I think if there wasn't
1389 value to the taxpayer I would -- I'd question whether or not we
1390 want to enter into this type of arrangement.

1391 Mr. Tonko. Okay. And SPRO is able to draw down and deliver
1392 crude oil within 13 days?

1393 Mr. Winberg. Yes, sir.

1394 Mr. Tonko. Are you confident that space can be leased
1395 without slowing down the federal government's ability to utilize
1396 SPRO?

1397 Mr. Winberg. That would be one of the key issues or key
1398 elements of any leasing program that we entered into with
1399 commercial clients but also with other countries, if we chose
1400 to go that route.

1401 The American taxpayers bought and paid for this thing. They
1402 have maintained it for the last 40 years. So our responsibility
1403 is to the U.S. taxpayers to make sure that, A, we are meeting
1404 our domestic oil requirements and, B, that we are meeting our
1405 international requirements as well.

1406 Mr. Tonko. And I appreciate that.

1407 In the Northeast, we are particularly vulnerable to supply
1408 disruptions, which can be caused by natural disasters such as
1409 a hurricane like Superstorm Sandy.

1410 The Northeast gasoline supply reserve was created to

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1411 mitigate those risks and, thankfully, it hasn't been needed yet.

1412 But that doesn't mean it won't be needed in the future.

1413 So I would really caution the administration against trying
1414 to dissolve this reserve. I think, again, for our region of the
1415 country it's of great concern.

1416 And with that, I thank the chair and yield back.

1417 Mr. Olson. Thank you.

1418 And seeing no more further witnesses, members seeking to
1419 ask questions, I'd like to thank you, Mr. Winberg, for coming
1420 today.

1421 All members should know they have five days to submit
1422 questions for the -- 10 days -- another panel. Okay. I'll back
1423 off.

1424 Thank you, Mr. Winberg. Before you leave, as Vice Chairman
1425 Barton will confirm with your boss, you have to say gig 'em over
1426 and over. Thumbs up. Gig 'em, Aggies.

1427 Mr. Winberg. Thank you.

1428 Mr. Olson. Uh-oh. Is your mic? You sure? One more time.

1429 Thank you, Mr. Winberg.

1430 Mr. Winberg. Thank you.

1431 Mr. Olson. Second panel, please come up.

1432 It looks like we are ready so let's kick off the second panel.

1433 Our witnesses for the second panel today include Mr. Frank
1434 Rusco, director of natural resources and environment at the GAO;
1435 Mr. Daniel Evans, project manager for Fluor Federal Petroleum

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1436 Operations; and Mr. Kevin Book, managing director for ClearView
1437 Energy.

1438 We are so thankful for you all being here today. We will
1439 begin this panel with Mr. Frank Rusco. You are recognized for
1440 five minutes to give an opening statement.

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1441 STATEMENTS OF FRANK RUSCO, DIRECTOR, NATIONAL RESOURCES AND
1442 ENVIRONMENT, GOVERNMENT ACCOUNTABILITY OFFICE; DANIEL M. EVANS,
1443 PROJECT MANAGER, FLUOR FEDERAL PETROLEUM OPERATIONS; KEVIN BOOK,
1444 MANAGING DIRECTOR, CLEARVIEW ENERGY PARTNERS, LLC

1445

1446 STATEMENT OF FRANK RUSCO

1447 Mr. Rusco. Thank you, Mr. Chairman, Ranking Member, and
1448 members of the subcommittee.

1449 I am pleased to be here today to discuss our recent report
1450 on DOE's management of the SPR. The SPR is an important energy
1451 security asset capable of mitigating negative effects of global
1452 oil supply disruptions in concert with other IEA member countries.

1453 In several collective actions of IEA members, the SPR has
1454 been effective at adding oil supply during actual or expected
1455 supply disruptions.

1456 To date, however, the SPR has most often been used in response
1457 to domestic supply disruptions caused by extreme weather. In
1458 such events, the SPR has been less effective because SPR
1459 infrastructure has not been able to deliver reserves when, where,
1460 and in the form they are needed.

1461 In particular, when severe weather has battered Gulf Coast
1462 states, damaging refineries or electricity grids needed to run
1463 pipelines, SPR oil reserves in the Gulf Coast have not been
1464 effective in mitigating what have generally been shortages in
1465 finished petroleum products such as gas line and diesel fuel.

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1466 Most IEA member countries hold significant parts of their
1467 strategic reserves as petroleum products. DOE has studied such
1468 product reserves and the conclusions of its studies point to net
1469 benefits in some regions.

1470 Yet, DOE has disagreed with our recommendation to complete
1471 these studies and advise Congress of its findings.

1472 In addition, we found that DOE's most recent strategic
1473 analysis of the SPR, which was mandated by Congress, was deficient
1474 in several key ways.

1475 These deficiencies denied Congress better information to
1476 make decisions about the size, disposition, and configuration
1477 of the SPR.

1478 For example, DOE did not do adequate risk-based scenario
1479 analyses of when the SPR may be called upon to deliver oil or
1480 petroleum products and, as a result, DOE cannot advise Congress
1481 on even a credible range of sizes, composition, or disposition
1482 of reserves that would best enhance energy security across a range
1483 of potential future events.

1484 Further, in part, because of the way in which the SPR has
1485 been used over the years and in part just because needed
1486 maintenance has been deferred for many years, the SPR storage
1487 and delivery infrastructure is in serious disrepair.

1488 DOE's current plan is to rebuild the existing SPR
1489 infrastructure in its historical configuration and capacity.
1490 If this is done and, given planned future sales of SPR oil, the

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1491 SPR will have excess storage capacity in the future.

1492 However, DOE made its plan to rebuild and repair SPR
1493 infrastructure without adequately studying alternatives,
1494 including selling or leasing such excess capacity.

1495 The discussion draft that is the focus of this hearing goes
1496 a long way toward requiring DOE to rectify some of the deficiencies
1497 in its strategic study and its SPR modernization plan.

1498 Specifically, the discussion draft requires DOE to take
1499 actions to evaluate and test the market for leasing its excess
1500 capacity by, one, authorizing the leasing of storage and related
1501 facilities to private sector and foreign entities; two, directing
1502 revenue earned from such leases to the general fund and to cover
1503 costs associated with leasing; and three, requiring a pilot
1504 program to lease 200 million barrels of excess capacity.

1505 To make fiscally prudent decisions about how to implement
1506 such a pilot, DOE will have to conduct additional analyses. For
1507 example, DOE's decision to use fresh water to displace oil during
1508 releases has caused the SPR's salt caverns to deteriorate over
1509 time with use.

1510 Fresh water absorbs salt, which increases the size and alters
1511 the shape of caverns and damages their integrity. Alternatively,
1512 there are salt cavern facilities operated by the private sector
1513 that use brine to displace that oil during release, which does
1514 not have these effects.

1515 Brine ponds add operation and maintenance costs but increase

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1516 the life of caverns. Ideally, GAO should evaluate this and many
1517 other factors we have identified before finalizing its
1518 modernization plans to ensure the SPR is run in an effective and
1519 fiscally prudent manner.

1520 Thank you. This ends my oral remarks. I'll be happy to
1521 answer questions.

1522 [The prepared statement of Mr. Rusco follows:]

1523

1524 *****INSERT 4*****

1525 Mr. Olson. Thank you, Mr. Rusco.

1526 Mr. Evans, five minutes for an opening statement, sir.

1527 Microphone, please. Sounds like -- hit the right button
1528 here.

1529 Mr. Evans. I am here. There we go. Start again.

1530 STATEMENT OF DANIEL EVANS

1531

1532 Mr. Evans. Good morning, Vice Chairman Olson, Ranking
1533 Member Rush, and members of the Subcommittee on Energy.

1534 I am the project manager for Fluor Federal Petroleum
1535 Operations, Dan Evans. We are the maintenance and operation
1536 contractor for the Department of Energy at the Strategic Petroleum
1537 Reserve since 2004.

1538 Fluor's partnerships with DOE date back to the Manhattan
1539 Project. Today, in addition to the SPR, we are currently active
1540 in roles with DOE facilities that are part of the Environmental
1541 Management and National Nuclear Security Administration
1542 missions.

1543 The congressionally-mandated sales have changed the
1544 day-to-day operations of the SPR dramatically. The sites have
1545 gone from a 4.4 million barrel per day draw down and readiness
1546 posture to maintaining draw down readiness while at the same time
1547 conducting intermediate variable rate deliveries from the
1548 reserves.

1549 Working with DOE, Fluor has met this challenge. One example
1550 is the response to the impacts to Hurricane Harvey. We were able
1551 to maintain mission draw down readiness throughout the event and
1552 deliver approximately 5 million barrels of crude oil to refineries
1553 in need.

1554 I would like to note that to support this need, certain

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employees volunteered to leave their own homes at peril, their whole families, and endure the hurricane at the Texas sites.

They provided day-to-day monitored conditions and real time updates on the readiness for us to fill the nation's mission.

The dedication of SPR employees to the mission is American exceptionalism at its finest.

The sales have and continue to put a significant level of stress on aging SPR infrastructure. In some cases, we have postponed planned maintenance and diverted funding to address emergency repairs.

As we continue the draw down over the next nine years, Congress should not lose sight of the importance of the SPR's annual maintenance funding to be able to address the needs of the sites and make necessary repairs to execute the current contemplated draw down schedule.

Next, I would like to address the ideas raised by the subcommittee's discussion draft. Fluor, of course, stands ready to support the leasing and operation of underutilized cavern capacity.

We anticipate in the particular draft legislation the committee has provided the authorization without further appropriation to use a portion of leased revenue cost related to storage and removal incurred by the SPR as a result of releases.

Commercially-leased petroleum storage currently presently operates under one of two models -- segregated or co-mingled.

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In segregated storage, the product accepted for storage is the same product that is ultimately delivered. Under the co-mingled model, a limited range of products are accepted for storage.

1585

1586

1587

When a withdrawal is made, a product of agreed to specification is then provided to the owner of the equivalent product that was accepted into storage.

1588

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1594

Either model presents challenges for leasing at SPR facilities while maintaining government inventories. Presently, the government practices intensive inventory management -- segregating crude oil by two specifications and tracking the volumes down to the very barrel not only across caverns but also with piping, pipelines, and crude oil storage tanks.

1595

1596

1597

If the SPR designates specific caverns to be leased for storage under the segregated model, the cavern is nonetheless integrated into the site infrastructure.

1598

1599

1600

The operation of a storage cavern requires routine ability to convey crude oil, water, and salt brine in and out of the cavern for purpose of preventative and corrective maintenance.

1601

1602

1603

1604

The cycling of fluids in and out of leased caverns with equipment in common with the SPR storage caverns will, inevitably, lead to co-mingling of government and commercial assets which will, in our opinion, require additional capital investments.

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1605 The co-mingled model shares the same challenges of the
1606 segregated model and also adds additional complexities in terms
1607 of product quality matters and tracking thereof.

1608 In conclusion, two policy issues require resolution prior
1609 to implementing a lease storage concept. The first, it's a target
1610 inventory of the SPR.

1611 Congress should also carefully consider the overall leasing
1612 concept to be adopted. We strongly recommend that should
1613 Congress move forward with a leasing regime, it allows sufficient
1614 time to make this determination and to develop and physically
1615 implement the necessary SPR enhancements.

1616 Mr. Vice Chairman, thank you again for the opportunity to
1617 appear here today. I stand by to answer any questions that you
1618 might have.

1619 [The prepared statement of Mr. Evans follows:]

1620

1621 *****INSERT 5*****

1622 Mr. Olson. Thank you, Mr. Evans.

1623 Mr. Book, five minutes for an opening statement, sir.

1624 STATEMENT OF KEVIN BOOK

1625

1626 Mr. Book. Thank you.

1627 Good morning, Vice Chairman Olson, Ranking Member Rush, Vice
1628 Chairman Barton, distinguished members of this committee.

1629 My name is Kevin Book. I lead the research team at ClearView
1630 Energy Partners, an independent firm that analyses macro energy
1631 issues for institutional investors and corporate strategists.

1632 Thank you for inviting me to contribute to your discussion
1633 regarding modernization of the SPR. I would like to begin by
1634 offering my admiration for the foresight the U.S. Congress showed
1635 in creating the SPR.

1636 In my view it remains one of the greatest energy security
1637 achievements in modern history. It still matters, too. Even
1638 with U.S. crude production averaging 11 million barrels per day
1639 during the week ending July 13, that surge is good news. But
1640 those barrels already have customers.

1641 As a government-controlled stockpile, the SPR can provide
1642 emergency supply that comes from outside the market.

1643 That said, ensuring against worldwide economic fallout and
1644 sheltering U.S. consumers may require a robust and
1645 well-functioning reserve capable of delivering its full design
1646 capability.

1647 Today's discussion reflects that Congress has passed six
1648 major laws in the last four years that mandate, roughly, 300

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1649 million barrels of oil sales from the SPR.

1650 Those sales could leave the SPR with approximately 400
1651 million barrels at the start of fiscal 2018. It, therefore, seems
1652 prudent to ask whether and how the resulting surplus storage
1653 capacity might be put to productive use.

1654 Today's legislative draft would expand storage leasing
1655 currently available to foreign governments so that private
1656 commercial entities could lease SPR space too.

1657 In my opinion, a pilot leasing program of this sort could
1658 potentially benefit U.S. producers and refiners in need of
1659 additional storage.

1660 If that program also helped to preserve or expand SPR
1661 capabilities at the same time, it could enhance petroleum supply
1662 insurance for U.S. consumers, too.

1663 My testimony offers several additional considerations.
1664 From a feasibility perspective, DOE might wish to evaluate the
1665 costs of restoring, rehabilitating, or improving spare capacity
1666 to support the requirements of commercial lessees. Those
1667 requirements can differ in many cases from current long-term
1668 strategic storage requirements.

1669 DOE might also wish to evaluate availability of takeaway
1670 capacity from leased storage sites, especially in the absence
1671 of incremental SPR marine distribution capacity.

1672 Storage with faster deliverability can command a higher
1673 market price also.

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1674 From a competitiveness perspective, it may be useful for
1675 DOE to evaluate the market impact of introducing up to 2 million
1676 barrels of crude storage into the Gulf Coast, also known as PAD
1677 3.

1678 In March 2018, the Energy Information Administration, or
1679 EIA, counted 341.2 million barrels of working storage capacity
1680 at refineries, tank farms, and underground facilities in PAD 3.

1681 The agency assessed that about 49 percent of that capacity
1682 was in use of that time. That was a big change from two years
1683 earlier.

1684 Storage volumes grew by 29.7 million barrels since the EIA's
1685 March 2016 report and did not report the agency-assessed PAD's
1686 restorage capacity at a much higher 68 percent capacity
1687 utilization.

1688 It could be undesirable if additional low-cost
1689 government-run SPR storage were to crowd out existing privately
1690 operated facilities.

1691 Likewise, salt cavern storage tends to be significantly
1692 cheaper than tank storage and so-called floating storage in
1693 leased tankers. But draw down constraints and take-away
1694 bottlenecks could limit commercial demand compared to tank farms
1695 and ships.

1696 Finally, from a strategic perspective, capacity leasing
1697 should probably also reflect the vision Congress and the
1698 department have for the reserve.

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1699 For example, today's draft would allocate net balances to
1700 the general fund. It might be worth considering whether proceeds
1701 could also pay for expanded modernization.

1702 To this point, the U.S. has dramatically reduced its net
1703 petroleum imports. But U.S. refiners still import gross volumes
1704 of about 6.3 million barrels per day.

1705 When they do, they pay global prices that reflect global
1706 supply demand balances. Today's oil prices remain high, relative
1707 to historical norms.

1708 Partly, this is because global oil production is itself
1709 running at relatively high capacity utilization. Crude prices
1710 are also high because global inventories have thinned out.

1711 Currently, OPEC producers are drawing on spare capacity to
1712 offset losses from collapsing Venezuelan production. They soon
1713 could lean even harder on spare production capacity to replace
1714 Iranian crude oil barrels.

1715 That, by the way, set off my Siri. I apologize. I am not
1716 sure why.

1717 And what happens when the production system is stressed and
1718 inventories are lean and a big supply disruption occurs somewhere
1719 in the world?

1720 In that situation, without strategic reserves, the oil
1721 market must balance and painfully so on the backs of consumers.

1722 Preventing that result, in short, is the nature of the insurance
1723 the SPR provides.

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1724 Mr. Chairman, this concludes my prepared testimony. I will
1725 be happy to answer any questions at the appropriate time.

1726 [The prepared statement of Mr. Book follows:]

1727

1728 *****INSERT 6*****

1729 Mr. Olson. Thank you, Mr. Book, and thank you, all our
1730 witnesses.

1731 I will now move into the Q and A portion of the hearing.
1732 I will begin the questioning. I recognize myself for five
1733 minutes.

1734 First of all, again, welcome to our three experts. A special
1735 welcome to Mr. Evans. Fluor Enterprise -- big tall building,
1736 one street light up from my official office area -- Sugarland,
1737 Texas. So welcome, welcome, welcome, dear friend.

1738 My first question is for you, Mr. Book. As a point on the
1739 first panel, Texas oil production is booming. I won't brag, but
1740 right now we are moving a lot of light crude to the coast about
1741 as fast as we possibly can.

1742 If the SPR were open to lease by the industry, do you think,
1743 first of all, number one, there would be interest? Number two,
1744 would there be value as a holding location for more oil or would
1745 the benefits be in the uncertainties going forward with leasing
1746 this great asset we have, the SPR?

1747 Mr. Book. Congressman, I think bragging is appropriate and
1748 you should be proud. That crude is going to keep going to coast,
1749 as you say, and exported to global markets that can use it for
1750 value.

1751 I think Secretary Winberg was wise to suggest that an inquiry
1752 of commercial interest would be a good place to start. One of
1753 the issues that you have right now is that you do have storage

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1754 building at export and transit sites in the Gulf Coast and its
1755 building quite rapidly.

1756 The SPR could serve a different purpose for long-term storage
1757 today. But as the other witnesses have mentioned, it would
1758 require adaptation to be potentially useful for the kinds of
1759 commercial applications that different kinds of customers might
1760 use.

1761 But definitely there's going to need to be more storage if
1762 you in Texas keep producing more crude.

1763 Mr. Olson. Count on it, guaranteed.

1764 Second question is for you, Mr. Rusco. AS you know, the
1765 DOE has taken some steps in modernizing the SPR. However, much
1766 work still remains and at the moment the SPR seems to lack a clear
1767 end goal.

1768 Can you talk about the most important steps DOE has taken
1769 -- what you think the best forward pathway forward to them to
1770 get this thing up and running to modernize?

1771 Mr. Rusco. I am encouraged that the assistant secretary
1772 was talking about testing the market and going out and trying
1773 to figure out what the market is and also that is cognizant of
1774 the differences in a way that different entities might use excess
1775 capacity.

1776 So it's our cost of storing fuel -- oil in the ground is
1777 much lower than most IEA members' costs and there are members
1778 that would like to store oil in our reserves. So that may be

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1779 ultimately the best way. But you got to test the market to know.
1780 I am encouraged about that.

1781 What I am concerned about is DOE has not done a good job
1782 of periodically assessing how the market has changed, how energy
1783 security issues have changed, and doing complex risk-based
1784 analysis involving scenarios of possible use. That's what they
1785 need to do.

1786 Mr. Olson. Thank you. Mr. Winberg is right over your left
1787 shoulder. So message accepted and sent. Thank you so much.

1788 Final questions for you, Mr. Evans, of Fluor. The SPR sites
1789 are made for long-term storage. But we certainly have a lot of
1790 maintenance issues.

1791 Fluor has been maintained as this asset for over almost two
1792 decades, as you said. Can you please tell me about the most common
1793 cause of maintenance issues and whether the DOE or the private
1794 sector can be better suited to fix these problems as quickly as
1795 possible?

1796 Mr. Evans. So the most common maintenance issues that we
1797 face today are with regards to the equipment that was not placed
1798 during Life Extension One. That was the '91 to '95 time frame.

1799 We have a lot of piping valves, actuators, and those kinds
1800 of pieces of equipment that are 40 years old. We did have a
1801 rupture in a low-pressure fresh water system at the Big Hill that
1802 was a dramatic one and that's our second significant rupture
1803 there.

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1804 We find more and more common leaks and we are able to deal
1805 with them very quickly. But Life Extension Two, and if it's
1806 smartly coupled with a concept to commercialize could replace
1807 and deal with, those highest level of common kinds of maintenance
1808 risks.

1809 We also have a very old degasification plant that's on its
1810 last legs at the West Hackberry Louisiana site. Part of LE2 then
1811 is to recycle that and come in with a new much more modular modern
1812 design that will be more efficient to make sure that we can deliver
1813 crude oil even during difficult hot months -- the end of the
1814 pipeline system.

1815 Mr. Olson. Thank you, Mr. Evans.

1816 My time has expired.

1817 Now the chair calls on the ranking member of the
1818 subcommittee, Mr. Rush, for five minutes.

1819 Mr. Rush. I want to thank you, Mr. Chairman.

1820 I want to ask each witness if you would give me feedback
1821 on this draft legislation.

1822 Do you feel that there is a need for the draft or you --
1823 do you find it helpful or are you concerned about any of the
1824 unintentional consequences? And I would like to just ask each
1825 one of you if you would respond to the question, and beginning
1826 with you, Mr. Rusco.

1827 Mr. Rusco. I think that the draft legislation addresses
1828 an important issue that DOE had not been thinking about when they

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1829 planned their modernization and that is that there is going to
1830 be excess capacity.

1831 And it makes good sense to try to use that capacity in a
1832 way that can help pay for the modernization and pay for the routine
1833 operations and maintenance so that we don't end up 10, 20 years
1834 later with a bunch of deferred maintenance and depreciated
1835 usefulness of the assets.

1836 Mr. Evans. Mr. Rush, we at Fluor here to implement these
1837 at the pleasure of the Congress and the department. We certainly
1838 would be responsive in the near term to integrating immediate
1839 team needs to, as I mentioned earlier, to go the market to
1840 understand what market demands are, to perform engineering and
1841 operations analysis studies that would take a look at what we
1842 needed to do to operate under market conditions.

1843 Number three, see how to fully integrate those with Life
1844 Extension Two so we can take advantage of the significant change
1845 in investment that Congress is making in the SPR, and then do
1846 all the environmental studies necessary as well to make sure that
1847 that operates as integrate smart hole.

1848 I do think that, with the addition of things like brine
1849 caverns that were mentioned earlier by Secretary Winberg, those
1850 would be very beneficial for overall operation in the long run
1851 for the SPR for the government as well as for commercial customers.

1852 Mr. Rush. Mr. Book.

1853 Mr. Book. Congressman Rush, I think it's a good idea to

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1854 make best use of what you have, particularly if you have a way
1855 of making money for the taxpayer using an asset owned by the
1856 taxpayer. That's always a good idea.

1857 You asked about unintended consequences and I think that
1858 Secretary Winberg has already suggested that he wants to take
1859 a look at it -- the implications of this. Part of understanding
1860 the role of government is understanding the way in which
1861 government actions can impact private investment.

1862 It's always a bad idea to lean too heavy with the government
1863 on something that where private industries put capital to work.

1864 And so if I had any concern it would be that -- that there
1865 would a risk potentially of commercially undercutting existing
1866 investments.

1867 But until one looks at it, there's no reason to not proceed
1868 with looking into it.

1869 Mr. Rush. I want to thank each and every one of you.

1870 Mr. Rusco, in your testimony you state that if DOE is
1871 authorized to lease unused small storage capacity to the private
1872 sector, as this bill would do, this leasing capacity could
1873 generate revenue that could help offset the costs of
1874 modernization.

1875 Are you confident that DOE will indeed look at this issue
1876 and, if not, what are some of the missing opportunities of not
1877 examining this particular topic or subject?

1878 Mr. Rusco. I am confident that DOE will pay attention to

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1879 what you all do and my concerns are sort of where the bill doesn't
1880 specify what to do and DOE has not been very proactive in
1881 evaluating the strategic, you know, purpose and future on an
1882 ongoing basis of the strategic petroleum reserved and, hence,
1883 we got to a point where we, clearly, according to a lot of folks
1884 in Congress had more oil than we ought to have.

1885 There's been a lot -- there's going to be a lot of drawdowns.
1886 But that was done without a really quality strategic look at
1887 the pros and cons of that from DOE.

1888 Mr. Rush. Well, thank you, Mr. Chairman. I yield back.

1889 Mr. Olson. Thank you.

1890 The chair now calls upon the one man who knows more about
1891 this topic than any single human being in Congress, vice chairman
1892 of the full committee, Chairman Joe Barton.

1893 Five minutes, sir.

1894 Mr. Barton. Well, I am not sure that's true, Mr. Chairman.
1895 But if it is true that still doesn't say much.

1896 So well, but it does point out a fact is that there really
1897 hasn't been a strategic look at the SPR in a long time and the
1898 last three or four Congresses, as our oil production has ramped
1899 up in the United States, especially since the repeal of the crude
1900 oil export ban and our ability to lessen our imports, the Congress
1901 is using this as a piggy bank and it's not being evaluated.

1902 It's we need money -- let's take oil out of the SPR. This
1903 own committee -- we did it the last Congress. 21st Century Cares

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1904 -- we needed some money, we've got jurisdiction over the SPR so
1905 we just said we are going to use the -- we are going to sell some
1906 oil and use it. The Budget Committee is using it. The omnibus
1907 is and the appropriation process is.

1908 Long story short, under current law, even though it says
1909 only the president can make a decision to use the reserve and
1910 he has to declare that it's a national emergency, Congress says
1911 not withstanding any other law we are going to sell oil for this
1912 or that or bacon fat.

1913 And so this draft bill before us says we don't want to change
1914 the basic mission statement but we want to add a mission statement.

1915 Under current law, you can't use the SPR for storage for private
1916 purposes. It's illegal.

1917 And so we decided let's see if maybe the private sector wants
1918 to use it. Now, Mr. Book's concerns -- we don't want the private
1919 -- we don't want the private sector to be crowded out on storage
1920 capacity. I think that's valid.

1921 But it's not mandatory. We are going to -- if we don't --
1922 if we don't sell another barrel of oil other than what we've
1923 already authorized, we are going to have over a 100 million barrels
1924 of existing capacity that could be utilized -- maybe two -- we
1925 were authorized up to a billion barrels. But we don't have the
1926 capacity -- current physical capacity but about a little over
1927 700 million.

1928 Let's see if the private sector might want to use that, and

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1929 this problem of being able to maintain the reserve because it
1930 has to be appropriated -- we've got to ask the appropriators to
1931 appropriate it -- and some years they do, some years they don't.

1932 We changed that. We give the specific authority to the
1933 secretary. All the money goes into the general fund. But we
1934 allow money from rentals fees, so to be used to maintain and
1935 improve the reserve without appropriate -- and go through the
1936 appropriation process. That puts control in this committee in
1937 the Energy and Commerce.

1938 So we are trying to fix that problem. I guess I will ask
1939 Mr. Book, given the existing market dynamic, would the private
1940 sector decide to utilize the reserve to store their own crude
1941 oil? What's your bet on that?

1942 Mr. Book. Well, if you ask an analyst to take a bet you're
1943 probably going to get an analyst answer. It could be right or
1944 wrong and I will come up with a new one for you when it's wrong.

1945 But the private sector breaks down into different sets of
1946 customers. So you do have folks who are trading oil, and when
1947 the future price of oil is higher than the current price of oil,
1948 there's an incentive to store.

1949 They're going to want to move oil out of their storage pretty
1950 quickly when the market turns around, as it sometimes does. And
1951 then you have the government customers that we mentioned and other
1952 potential long-term storage customers or longer-term storage
1953 customers and we have different needs.

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1954 And I think until you ask and see what's on offer out there,
1955 it's hard to know. Right now, what you have are mid-stream
1956 companies that are building out storage as their developing
1957 transit capabilities, leasing that storage, and coming up with
1958 innovative new ways.

1959 Mr. Barton. But they're having to pay capital costs to build
1960 and operate it.

1961 Mr. Book. Well, that's right. They do have --

1962 Mr. Barton. And under this case, you have existing capacity
1963 that it's a lease or a rental -- I am not sure how they would
1964 -- how we would do it. But there's no upfront cost, except a
1965 commitment -- probably a time certain commitment.

1966 Mr. Book. Yes. I mean, the costs of salt cavern storage
1967 are generally cheaper than tank storage and certainly cheaper
1968 than leasing a ship to store it and then floating storage when
1969 things get tight.

1970 So it could be very competitive.

1971 Mr. Barton. Well, what we're -- what we are trying to do
1972 -- Mr. Rush and I -- we are trying to -- we have an asset that's
1973 underutilized. We are going to have excess capacity.

1974 Why not have a new mission statement that complements the
1975 private sector -- allows the private sector but doesn't mandate
1976 the private sector? Maybe it'll work. Maybe it won't.

1977 But we are not going to be worse off than we are and we will
1978 probably be better off if the private sector makes a decision

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1979 to utilize it because it's going to give some funding that's at
1980 the discretion of the secretary of energy to improve the facility
1981 and I think it's worth a shot.

1982 But there may be other ideas. Anyway, my time has expired.

1983 Mr. Olson. Thank you. The chair now calls upon the
1984 gentleman from California, Mr. McNerney, for five minutes, sir.

1985 Mr. McNerney. Well, thank you, Mr. Chairman.

1986 I appreciate Mr. Barton's remarks about this. But I have
1987 a question. Is -- sort of a philosophical question -- is leasing
1988 capacity to foreign governments or private entities is that going
1989 to degrade the capacity -- the long-term capacity of the caverns?

1990 Mr. Evans.

1991 Mr. Evans. I am not an expert in the interests of foreign
1992 governments. I think that if appropriately handled that the
1993 caverns themselves can remain integral, if we use brine drive
1994 to be able to handle those issues and do multiple small drawdowns
1995 that we could continue to operate those in the interests of the
1996 government, should we wish to terminate agreements with either
1997 commercial or foreign countries.

1998 Mr. McNerney. Well, Mr. Rusco, do you believe that the
1999 current proposed legislation will give us enough information to
2000 provide that guidance to the operating SPRO effectively and not
2001 degrading its capability?

2002 Mr. Rusco. I think it's -- I think that the implementation
2003 of this legislation by DOE would have to -- matters a lot. They

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2004 would have to implement this in a way where there are controls.

2005 So, for example, if they were to lease this to other IEA
2006 members, lease the access capacity to store long-term oil, which
2007 I want to say we have the cheapest -- the cheapest storage of
2008 anybody in the world and we know of at least two countries that
2009 have actually contacted DOE about leasing space like this.

2010 If you did that, then you're really enhancing global energy
2011 security because you have longer -- you have larger storage of
2012 crude oil in exactly the same place that it would be if we owned
2013 it all.

2014 Now, if the private sector owns it, then we have smaller
2015 capacity here. Other countries have to have their storage
2016 capacity somewhere else.

2017 Mr. McNerney. So my question is does the proposed
2018 legislation give us and you and the operators the capability to
2019 operate it in a way that would be beneficial rather than
2020 detrimental to the long-term capacity? Or does it need to be
2021 enhanced or improved?

2022 Mr. Rusco. I think that what I have read, which is just
2023 the discussion draft, that there -- you could implement this in
2024 a way that would give you flexibility to say okay, we want more
2025 -- if we want more of that capacity for our own storage, then
2026 when a contract is terminated you could take it back and use it
2027 as U.S. storage. So I believe it would have that flexibility.

2028 Mr. McNerney. Okay. Thank you.

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2029 Again, Mr. Rusco, do you think there's a good enough case
2030 for product reserve capacity in the western part of the country
2031 -- on the West coast where we have earthquakes?

2032 Mr. Rusco. We looked at studies that were done by DOE and
2033 those studies came to the conclusion that in the case of the
2034 Southeast and the West Coast there were net positive benefits
2035 to these things.

2036 DOE chose not to release those reports. They say they're
2037 not complete. They've chosen not to complete those reports.
2038 But everything that is in those reports indicates that there are
2039 net positive benefits to that.

2040 Mr. McNerney. Thank you.

2041 Mr. Evans, you talked a little bit about co-mingling and
2042 the inevitability of co-mingling, and refineries are specialized
2043 in terms of the kind of oil they take.

2044 How is the co-mingling going to impact the refineries'
2045 ability to produce product -- gasoline and other products?

2046 Mr. Evans. I think the -- it's a great question. Each
2047 particular demand would be somewhat different, Congressman.

2048 But, however, if we were to lease to a, say, a shell or a
2049 commercial entity, the crude oil that would be stored there in
2050 their own cavern, if you would, you would think that it would
2051 make sense for them to store the material that they would utilize
2052 most effectively in terms of a turnaround of a refinery without
2053 product.

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2054 So I think the market handles that piece. We'd have to be
2055 very careful about co-mingling the crude oil with the government
2056 oil, and those are practices that are commonly done -- this is
2057 not an impossibility.

2058 But we are, for example, very sensitive to a high gas content
2059 oil in our reserves. We believe that's very detrimental to the
2060 overall safety and quality of the reserves.

2061 So we have to manage that extremely carefully. We think
2062 our current regime is a good one in terms of being able to respond
2063 to refinery needs on an instant basis and if we were able to add,
2064 similarly, that -- to that mix within the right blend level, that
2065 that ought to be utilized well as well.

2066 Mr. McNerney. Thank you.

2067 Mr. Chairman, I yield back.

2068 Mr. Olson. Thank you.

2069 Mr. Doyle, five minutes for questions, sir.

2070 Mr. Doyle. And I thank you to the witnesses today.

2071 Let me just ask all the witnesses -- it's been noted I think
2072 in Mr. Rusco's testimony that the U.S. will become a net exporter
2073 in the late 2020s but then become a net importer again in 2040,
2074 2050s.

2075 So in your opinion, how should the U.S. be prepared for this
2076 long-term outlook for the SPRO?

2077 Mr. Rusco. Our most recent report is not the first time
2078 we've recommended to DOE that they do periodic strategic studies

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2079 of conditions and report to Congress about what they see coming
2080 down the pike.

2081 So if we see a situation where our net imports are going
2082 to be increasing over the next few decades at some point, DOE
2083 should be up here talking to you all and saying we need to rethink
2084 our capacity.

2085 Similarly, if they think that they're -- that risks have
2086 either reduced or increased of global supply disruptions or if
2087 there's big changes to demand or supply in any other way, all
2088 of that stuff needs to be modelled on a regular basis so that
2089 they can give you really quality information so you can make good
2090 decisions.

2091 Mr. Doyle. Do you agree with that, Mr. Evans?

2092 Mr. Evans. I do. I think the market volatility is very
2093 significant right now. I am not an expert in global markets.

2094 But reading the newspaper leads me to believe that there are
2095 a number of scenarios that could be invoked over time and,
2096 certainly, a value in having reserves.

2097 Mr. Doyle. Mr. Book.

2098 Mr. Book. I think it would take -- humility would be the
2099 minimum requirement for anyone looking at the global oil market,
2100 given how much things have changed over the last 10 years.

2101 Mr. Doyle. Yes. Thank you.

2102 Mr. Rusco, you mentioned that \$2 billion from the sale of
2103 crude oil from the SPRO is authorized for the modernization

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2104 program.

2105 Has this been implemented, in your opinion, effectively so
2106 far and do you have a status update on the use of these funds?

2107 Mr. Rusco. I don't. I don't have an up to date status.

2108 I know that there have been some sales. I think it's \$700
2109 million. But I don't think most of that money or much of that
2110 money has actually been spent.

2111 I think that DOE is further -- doing some further analysis
2112 before they actually spend that money. But I can't give you much
2113 more of an answer. I could give you something for the record.

2114 Mr. Doyle. Okay. Thank you.

2115 Mr. Evans, how safe is the current infrastructure and how
2116 is your company prioritizing and planning for long-term safety?

2117 Mr. Evans. So we are very safety conscious. You will note
2118 our last three years on the SPR are the safest years that we have
2119 seen in the 40-year operation. It's one of Fluor's core values.

2120
2121 We are very sensitive to the infrastructure and the quality
2122 of the infrastructure. We run routine programs and
2123 investigations that will allow us to take a look at the quality,
2124 for example, of the piping and those kinds of things.

2125 In the short term, it's manageable with, for example, the
2126 degasification unit it's on its last legs. We are not going to
2127 extend that unit. It simply is infeasible and impossible to do
2128 that.

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2129 When we invest in Life Extension Two, we'll specifically
2130 look at those old and perhaps more risky components that need
2131 to be removed and to see how we can possibly configure those to
2132 be in a more safe and operating environment in the future.

2133 For example, old pipelines that are 40 years old that are
2134 underground that are not possible to send a "smart" pig through
2135 perhaps we want to reroute those and have a different method to
2136 be able to track the quality of what we've done.

2137 So those are all a part of our -- the department's plans
2138 in moving forward.

2139 Mr. Doyle. So tell me, what type of financial investment
2140 does Congress as well as the DOE need to make to update and secure
2141 the SPRO's infrastructure?

2142 Mr. Evans. Well, I think the current, roughly, \$1.4 billion
2143 is a terrific start in getting the infrastructure where it needs
2144 to go. It certainly attacks the high-profile things that we've
2145 got in our infrastructure.

2146 However, it will not replace all of the issues. We'll need
2147 to have a continual authorization and appropriation for major
2148 maintenance projects as they come around because by no means are
2149 we able to use the current funding to replace everything that
2150 we know that will be coming along in the next five to 10 years.

2151 Mr. Doyle. Do you have any idea what that number looks like,
2152 down the road?

2153 Mr. Evans. I am sorry. I do not, sir. We can take a look

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2154 at that and get back to you.

2155 Mr. Doyle. Okay.

2156 Thank you, Mr. Chairman. Thank you.

2157 Mr. Olson. Thank you, Mr. Doyle.

2158 Mr. Tonko, five minutes for questions, sir.

2159 Mr. Tonko. Thank you, Mr. Chair, and welcome, gentlemen.

2160 Mr. Rusco, as we have heard this morning, there have been
2161 a number of legislative requirements to sell SPRO oil in recent
2162 years.

2163 Do you believe that the frequent changes to SPRO's long-term
2164 size target have impacted DOE's ability to develop and maintain
2165 a modernization plan?

2166 Mr. Rusco. Well, I think that DOE's modernization plan was
2167 made largely without consideration for those sales and now they're
2168 adjusting to those sales and doing further analyses.

2169 So I think the modernization plan will also be affected by
2170 any legislation that comes out of this Congress about leasing
2171 excess capacity.

2172 But even if Congress does not mandate that they look into
2173 leasing excess capacity, DOE should do something with its excess
2174 capacity. They should either tell you that they need to shrink
2175 capacity or they -- or sell some, for example.

2176 But they need to do something because just leaving that
2177 excess capacity there is just throwing money away.

2178 Mr. Tonko. Thank you.

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2179 And Mr. Evans, depending on how the leases are structured,
2180 might they result in additional stress on aging SPRO
2181 infrastructure, requiring greater investments in modernization
2182 and improvements that then might otherwise be required?

2183 Mr. Evans. It is certainly hopeful that we'll -- with
2184 decisions made on a timely basis to go forward from Congress that
2185 we'll be able to integrate many of the needs for commercialization
2186 within the current LE2 environment since there are significant
2187 upgrades to pipelines and those kinds of things.

2188 Certainly, we are not currently intending to build brine
2189 drive caverns. That's an additional cost that we would incur.

2190 There may be other costs associated as well with piping
2191 interlinking and valving and control room modifications. Right
2192 now, we are not aware of those.

2193 However, I would venture that in the long term those would
2194 also benefit the longevity and utilization of the reserve.

2195 Mr. Tonko. Thank you very much.

2196 And this question, I guess, could go to any of the three
2197 of you. It's my understanding that the proposed pilot program
2198 would allow DOE to recover additional costs from the leases.

2199 How much of the proposed pilot program's revenue should be
2200 dedicated to investing in the SPRO modernization?

2201 Mr. Evans. I don't have a number figure. That's probably
2202 better answered to you when we have some more detailed engineering
2203 studies and can get back to you on that topic.

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2204 Mr. Tonko. Anyone else? Mr. Book, anything?

2205 Mr. Book. I am just an analyst, sir.

2206 [Laughter.]

2207 Mr. Tonko. Mr. Rusco, currently, is DOE able to enter into
2208 an agreement with a foreign nation to store oil at the SPRO without
2209 a change to the statute?

2210 Mr. Rusco. We believe that's correct, yes.

2211 Mr. Tonko. Thank you.

2212 And Mr. Book, I noticed in your testimony that there are
2213 other nations that meet their IEA requirements by holding oil
2214 abroad. Are there any reasons why entering into a contract with
2215 a foreign government may be preferable?

2216 Mr. Book. Well, the long-term nature of government
2217 strategic reserves comports with the existing infrastructure
2218 capabilities of the SPRO today.

2219 So the customer of first resort would be the customer that
2220 requires the least incremental maintenance. For that reason,
2221 it might make sense.

2222 Mr. Tonko. Mm-hmm. And do you believe that there would
2223 be demand from the private sector to lease this space?

2224 Mr. Book. Well, it depends an awful lot on what a market
2225 test shows -- that there is going to be demand for more storage
2226 for crude oil in PAD 3 because there's going to be more crude
2227 oil production that will need to be stored.

2228 Mr. Tonko. Okay. Anyone else have ideas on that?

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2229 Mr. Rusco. I am sure there's going to be private interest
2230 in this capacity. It's the cheapest way to store oil.

2231 Now, you have to make changes in the way that you take it
2232 -- put it in, take it out. You have to use the brine drive to
2233 do that. But it's still going to be cheaper.

2234 Mr. Tonko. Right.

2235 Mr. Evans, did you want to comment on that?

2236 Mr. Evans. We would also agree that -- with Mr. Book that
2237 it would be simplest, most efficacious and, perhaps, quickest
2238 to be able to lease whole caverns to foreign governments as an
2239 instantaneous benefit to them and to the U.S. government as well.

2240 Mr. Tonko. Thank you. Thank you, gentlemen, and thank you,
2241 Mr. Chair.

2242 I yield back.

2243 Mr. Olson. Thank you, and the chair now calls upon the
2244 ranking member, Mr. Rush, for one additional question.

2245 Mr. Rush. I really -- Mr. Tonko opened up some thoughts
2246 and I just want to ask -- we've been talking a lot this morning
2247 about private interests and I don't think we've been hearing
2248 enough thought and consideration to foreign governments.

2249 Are any of you aware of any interests by foreign governments
2250 in leasing the underutilized storage space here in the U.S. and
2251 if you want to -- what's the potential for --

2252 Mr. Rusco. We spoke with representatives from Australia
2253 and New Zealand, both of whom have an interest in leasing oil

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2254 and space in the SPRO, and they have actually spoken with DOE
2255 about this in the past.

2256 Mr. Rush. Is there any -- just those two nations?

2257 Mr. Rusco. Yes, but I --

2258 Mr. Rush. Do you see any potential for other similarly
2259 situated foreign governments?

2260 Mr. Rusco. I would be surprised if there are no other
2261 governments that are interested because of the differential cost.

2262 A lot of countries are storing oil and product in tanks and if
2263 you can store oil in a salt dome it's much cheaper, and so I would
2264 assume that there would be additional interest.

2265 Mr. Rush. Thank you, Mr. Chairman. I yield back.

2266 Mr. Olson. Thank you, and seeing no further members wishing
2267 to ask questions, I would like to thank our witnesses for coming
2268 today, and before you leave, Mr. Evans, one special tie we have
2269 together, we have the Fluor tie but I just found out my dad was
2270 a Fighting Siwash. Knox College played football there '56
2271 through '60.

2272 Mr. Evans. Are you kidding me? That is absolutely amazing,
2273 Mr. Olson.

2274 Mr. Olson. No prairie fire. Siwash, Siwash, Siwash.

2275 Mr. Evans. Siwash is -- when I was at Knox, which is a
2276 terrific institution, we were the Fighting Siwash and I've never,
2277 fortunately, given that up. That's so amazing.

2278 Mr. Olson. Mr. Rush knows that's in Galesburg, Illinois

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2279 -- Knox College.

2280 Mr. Evans. Galesburg. Grew up in Illinois and went to
2281 school there and my family has lived there since the 1850s. So
2282 Knox is a terrific institution. Thank you for that.

2283 Mr. Olson. Yes, sir. Yes, sir.

2284 And before we conclude, I ask unanimous consent to submit
2285 the following documents to the record: a report by GAO and a
2286 report from the Center on Global Energy Policy.

2287 [The information follows:]

2288

2289 *****COMMITTEE INSERT 7*****

2290 And pursuant to committee rules, I remind members that they
2291 have 10 business days to submit additional questions for the
2292 record and I ask that the witnesses submit their responses within
2293 10 business days upon receipt.

2294 Without objection, this subcommittee is adjourned.

2295 Go Siwash.

2296 [Whereupon, at 12:35 p.m., the committee was adjourned.]

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