

ONE HUNDRED FIFTEENTH CONGRESS
Congress of the United States
House of Representatives
COMMITTEE ON ENERGY AND COMMERCE
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MEMORANDUM

July 21, 2018

To: Subcommittee on Energy Democratic Members and Staff

Fr: Committee on Energy and Commerce Democratic Staff

Re: Hearing on “DOE Modernization: Legislation to Authorize a Pilot Project to Commercialize the Strategic Petroleum Reserve”

On **Tuesday, July 24, 2018, at 10:15 a.m. in room 2322 of the Rayburn House Office Building**, the Subcommittee on Energy will hold a hearing entitled “DOE Modernization: Legislation to Authorize a Pilot Project to Commercialize the Strategic Petroleum Reserve.”

I. THE STRATEGIC PETROLEUM RESERVE

Congress authorized the Strategic Petroleum Reserve (SPR) in the Energy Policy and Conservation Act (EPCA) of 1975¹ in response to supply disruptions caused by the 1973-74 oil embargo.² Congress created the reserve to stockpile crude oil, which could then be released via competitive sale in the event of a major supply disruption. The oil crisis of 1973-74 also led to the formation of the International Energy Agency (IEA), of which the U.S. is a member. As part of its mission to ensure global energy security and manage the international response to supply disruptions, the IEA requires member states to maintain petroleum reserves totaling 90 days of net petroleum imports.³ As of July 2018, the SPR contained 660 million barrels of oil,⁴ equal to

¹ Energy Policy and Conservation Act, Pub. L. No. 94-163 (1975).

² Congressional Research Service, *The Strategic Petroleum Reserve: Authorization Operation, and Drawdown Policy* (Aug. 27, 2013) (R42460).

³ International Energy Agency, *Energy Supply Security 2014* (Jun. 19, 2014) (online at www.iea.org/publications/freepublications/publication/energy-supply-security-the-emergencyresponse-of-iea-countries-2014.html).

⁴ Department of Energy, *Strategic Petroleum Reserve Inventory* (Jul. 13, 2018) (www.spr.doe.gov/dir/dir.html).

approximately 252 days of total petroleum net imports.⁵ The U.S. continues to hold the world's largest stockpile of emergency crude oil.⁶

Four underground salt domes along the Texas and Louisiana coasts hold the crude oil reserves.⁷ The Energy Policy Act of 2005 required the Secretary of Energy to fill the SPR to its authorized capacity of one billion barrels “as expeditiously as practicable.”⁸ However, in 2011, Congress and the President abandoned efforts to construct the necessary facilities to reach that goal.⁹ Since 2015, five major pieces of legislation (including the Tax Cuts and Jobs Act of 2017 and the Bipartisan Budget Act of 2018) have mandated the cumulative sale of more than 250 million barrels of crude oil from the SPR by 2027. Those withdrawals are expected to reduce SPR inventories to approximately 410 million barrels in 2028.¹⁰

II. GOVERNMENT ACCOUNTABILITY OFFICE REPORT ON SPR REFORM

In a [May 2018 report](#), the Government Accountability Office (GAO) found that current and foreseeable shifts in oil markets warrant a re-examination of the SPR's size and structure.¹¹ The report noted that total U.S. crude oil reserves reached historically high levels in 2017, due in part to increasing holdings at both public and private facilities. Between 1987 and 2012, public and private reserves together helped the U.S. meet the IEA's 90-day reserve obligation. Since 2012, however, the U.S. has depended solely on public reserves (i.e., the SPR) to meet the 90-day requirement. GAO underscored that trends in the composition of the SPR – such as the relationship between public and private reserves – are likely to continue changing in response to both Congressionally-mandated sales and market forces (including the projection that the U.S. will become a net petroleum exporter by 2030).¹²

⁵ Energy Information Administration, *U.S. SPR Stocks as Days of Supply of Total Petroleum Net Import* (Jun. 29, 2018) (www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pets&s=m_epc0_vsi_nus_days&f=m).

⁶ Government Accountability Office, *Strategic Petroleum Reserve: DOE Needs to Strengthen Its Approach to Planning the Future of the Emergency Stockpile* (May 2018) (GAO-18-477).

⁷ Department of Energy, *SPR Storage Sites* (www.energy.gov/fe/services/petroleum-reserves/strategic-petroleum-reserve/spr-storage-sites).

⁸ Energy Policy Act of 2005, Pub. L. No. 109-58 § 301(e).

⁹ Department of Energy, *Cancellation of Supplemental Environmental Impact Statement for Ancillary Facilities for the Richton Site of the Strategic Petroleum Reserve*, 76 Fed. Reg. 55890 (Sept. 9, 2011).

¹⁰ Energy Information Administration, *Recent legislation mandates additional sales of U.S. Strategic Petroleum Reserve crude oil* (Feb. 21, 2018) (www.eia.gov/todayinenergy/detail.php?id=35032).

¹¹ See note 6.

¹² Energy Information Administration, *The United States is projected to become a net energy exporter in most AEO2018 cases* (Feb. 12, 2018) (www.eia.gov/todayinenergy/detail.php?id=34912).

The report added that although the Department of Energy (DOE) has “examined a range of sizes for the SPR,” it has yet to determine the optimal size of the reserve. GAO recommended that DOE evaluate “all options for handling any excess SPR assets that may be created,” including the possibility of leasing unused SPR storage capacity to the private sector. Such leases would serve the dual purposes of utilizing otherwise vacant space and raising revenue to invest in SPR modernization.

III. DRAFT LEGISLATION TO LEASE UNDERUTILIZED SPR FACILITIES

In response to GAO’s recommendation, Rep. Barton (R-TX) has circulated a [discussion draft](#) that authorizes the federal government to lease underutilized SPR facilities to third parties.

Section 2 of the discussion draft amends EPCA to permit the Secretary of Energy to lease storage and related facilities to the private sector or foreign governments. The Secretary may only lease a facility upon a determination that it would neither conflict with the federal government’s ability to utilize the SPR, nor threaten national security. The draft requires lessees to fully compensate the government for costs, and to pay fees which would, in turn, help fund facility maintenance and modernization.

Section 3 establishes a pilot program to lease underutilized storage space with up to 200 million barrels of petroleum (or petroleum product) capacity. The section authorizes the Secretary to (a) determine which facilities are best suited for lease; (b) make such facilities available for lease; (c) identify the environmental impacts (both positive and negative) associated with leasing; and (d) implement any physical changes needed to ensure the structural viability of the leased facilities. Finally, the Secretary must submit a report to Congress on the status of the program within one year of the bill’s enactment into law.

IV. WITNESSES

The following witnesses have been invited to testify:

Panel I

Steven Winberg

Assistant Secretary for Fossil Energy
U.S. Department of Energy

Panel II

Kevin Book

Managing Director
Clearview Energy Partners, LLC

Daniel M. Evans

Project Manager

Fluor Federal Petroleum Operations

Frank Rusco

Director, Natural Resources and Environment

Government Accountability Office