

**Statement by Steven E. Winberg
Assistant Secretary for Fossil Energy
U.S. Department of Energy**

**Before the
U.S. House Committee on Energy and Commerce
Energy Subcommittee**

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Thank you Chairman Upton, Ranking Member Rush, and distinguished Members of the Committee. I appreciate the opportunity to be here today and it is my pleasure to appear before you to discuss the Department of Energy's (DOE's) Strategic Petroleum Reserve (SPR) and the related use of underutilized SPR facilities as inventory is reduced over the next several years following congressionally-legislated crude oil sales.

SPR Background

The mission of the SPR is to protect the United States economy from severe petroleum supply interruptions through the acquisition, storage, distribution, and management of emergency petroleum stocks, and to carry out U.S. obligations under the International Energy Program (IEP), which established the International Energy Agency (IEA).

The SPR, established as part of the Energy Policy and Conservation Act (EPCA) in December 1975, remains a key national energy security asset, even as the nature of energy security evolves. Today's increased domestic oil production and reduced U.S. oil import dependency have changed the U.S. energy landscape.

Since the establishment of the SPR in 1975, U.S. and global oil markets have changed the environment in which the SPR operates. When the SPR was established, U.S. oil production was in decline and the spot market for oil, which provides a global pricing mechanism, was in its infancy. Since then, U.S. oil production has increased dramatically in recent years with the U.S. expected to lead the world in oil exports by next year, according to the IEA.

As a member of the IEA, the United States has two primary obligations:

1. As a net oil importer, the United States must maintain crude oil and/or refined product stock inventories, whether held by industry or government, equal to at least 90 days of net petroleum imports. Of the 30 IEA member countries, 26 other net importers have the same obligation. The remaining three members do not have a stockholding obligation because they are net oil exporters. As of June 30, 2018, the United States held 177 days

of net petroleum imports, based on a SPR crude oil inventory of 660.0 million barrels and 2017 net imports of 3.732 million barrels.

2. The United States must be able to contribute a proportionate share to an IEA collective action response based on its share of IEA oil consumption. This obligation can be met by any measure a member nation may choose, including release of strategic or commercial stocks. As of March 31, 2018, the United States must be prepared to contribute 41.4% of the barrels released in an IEA collective action response. The United States government relies on the use of the SPR to meet this requirement, although commercial stocks may also contribute, albeit voluntarily.

In the event of an international oil supply disruption large enough for the President to authorize a release of the SPR, U.S. domestic conventional and unconventional production alone would not be able to ramp up quickly enough to make up for the lost barrels in a crisis. The SPR can be ready to drawdown and deliver crude oil within thirteen days of a Presidential Finding, while domestic production would take months to substantially expand.

Use of Underutilized SPR Storage Facilities

With a total volume of nearly 290 million barrels being sold through the combination of congressionally-mandated and appropriated sales, it is expected that the SPR will have unused storage capacity by the end of FY 2027 of roughly 45 percent of current design capacity. Therefore, DOE is currently conducting the “U.S. SPR Post-Sale Configuration Study” that will recommend the configuration of the SPR at the end of the mandatory sales. This will help guide us in determining which sites and in what order we should sell crude oil from over the next several years, and identify a number of questions that will need to be addressed. For example, with the reduction of nearly 290 million barrels in SPR inventory levels, should we retain the same number of sites? Are there current storage caverns with structural issues substantial enough to raise questions about the long-term viability of operating them once current fill is removed? Should SPR retain the current mix of sweet and sour crude oil (about 40 percent sweet and 60 percent sour) at the end of all of the sales? Understanding the best configuration for the SPR will guide us as we continue to sell barrels over the next several years. It will also guide us in identifying which SPR storage caverns or related facilities likely will become underutilized or operationally inefficient, informing possible decisions concerning site decommissions. In every aspect of determining the optimal configuration for the SPR, answering these and other questions will be critical in shaping the details in executing the pilot program proposed in this legislation.

DOE intends to have an external panel of experts review the methodology for the U.S. SPR Post-Sale Configuration Study and present the information to other relevant offices within DOE to make a recommendation to myself. This process will ensure that this study becomes a critical part of our planning and implementation for the proposed pilot program.

We are supportive of maximizing the value of this taxpayer-funded asset but there are a number of issues that need to be considered related to the configuration of the SPR a decade from now, so we believe it is premature to comment on the operational feasibility of commercially leasing underutilized storage. Further, it is important for both Congress and the Department to consider the economic impact of using government facilities to compete on the private market with both existing and planned petroleum storage along the Gulf Coast. For example, as of March 2018 refinery, tank, and underground net available storage capacity within the Petroleum Administration for Defense District 3 (Gulf Coast) stood at 49 percent, suggesting readily available, privately-owned existing storage capacity. Finally, it would be important to review the logistical and infrastructure challenges associated with a potential significant increase in inflow/outflow activities across SPR sites, as in some instances existing infrastructure may not be configured to accommodate activity associated with commercial leasing, thereby limiting revenue-generating opportunities and requiring large upfront capital expenditures to enable leasing.

The General Accountability Office (GAO) Audit on the SPR

I would like to take this opportunity to discuss the recently released GAO report titled: *STRATEGIC PETROLEUM RESERVE: DOE Needs to Strengthen Its Approach to Planning the Future of the Emergency Stockpile*. The GAO made the following four recommendations to the Secretary of Energy in the report.

1. Supplement the agency's 2016 Long-Term Strategic Review by conducting an additional analysis that takes into account private-sector response, oil market projections, and costs and benefits of a wide range of different SPR sizes.
2. Take action to ensure that the agency periodically reexamines the size of the SPR.
3. Conduct or complete studies on the cost and benefits of regional petroleum and consider a full range of operations for handling potentially excess assets and, if needed, request congressional authority for the disposition of these assets.
4. Consider a full range of options for handling potentially excess assets and, if needed, request congressional authority for the disposition of these assets.

The Department's formal response concurred with Recommendation #2 (to conduct regular reviews of the SPR program every 5 years) and Recommendation #4 (to consider a full range of options for handling potential excess assets following the completion of congressionally mandated sales). The Department partially concurred with Recommendation #1 and did not concur with Recommendation #3.

Regarding Recommendation #1, I want to share briefly with you about our future plans in determining an optimal SPR size. We are looking to "flip the script" by analyzing future requirements of the SPR rather than analyzing the benefits of various SPR sizes. DOE is

proposing to determine what requirements the SPR needs to meet, then to let those requirements dictate the SPR's size. For example, should the SPR meet the needs of the United States in fulfilling its share of an IEA collective action for all oil supply disruption sizes, or should it meet some predefined subset of possible oil supply disruption sizes? With the congressionally-legislated sales, is there an opportunity to lease SPR storage space to commercial customers or to other countries that are part of the IEA collective action, which is the subject of today's hearing? Once it is determined what size, type, and number of disruptions the SPR should meet in terms of an IEA collective action and the United States' obligation and whether there is an alternative use of the SPR storage space, then we can analyze the most suitable options for SPR. This analysis, in turn, will produce the facts necessary to determine the future optimal size of the SPR.

Status Update of the SPR Modernization Program

I would like to take this opportunity to update the Committee on the Status of the SPR Modernization program, which is being funded through crude oil sales authorized under Section 404 of the Bipartisan Budget Act of 2015 (Public Law 114-74). The Life Extension 2 Program, the capital program to improve the condition of the existing SPR facilities, has received approval for the Analysis of Alternatives through the DOE Acquisition of Capital Assets process. The project planning, scheduling, and development of an Earned Value Management System are all well under way. An Architect Engineer has been selected, and design for the project is currently at the 30 percent stage; contingency planning for the impact of mandated oil sales on Life Extension 2 tasks has been completed; and the Marine Terminal Enhancement Project has been officially removed from the Modernization Program moving forward.

Recent SPR Accomplishments and Audits

Last but not least, I would like to take this opportunity to inform the Committee about a number of accomplishments by the SPR in recent years. In its history, the SPR has conducted a total of 23 combined oil sales and exchanges (including congressionally mandated sales) for a total of 206.1 million barrels. The SPR has sent \$102.7 million in revenue to the Treasury from leases of underutilized assets since 1996 including \$1.14 million in the quarter ending March 2018 alone. The SPR has avoided a total of \$419.9 million dollars of operations and maintenance costs from leasing these assets to commercial industry since 1996. The SPR has acquired 10.5 million barrels of oil in interest payments at no cost to the taxpayer through the management of returned exchange barrels and other similar programs.

I am pleased to report that the safety program, while a severe problem in the past, has shown tremendous improvement over the last few years. For example:

- The SPR Total Recordable Case Rate for calendar year 2018 is currently at 1.44, a fraction of the comparable industry rate of 4.80. From 2013 to 2017, the rate has ranged from 0.45 to 1.36, again well below the industry standard.

- The Days Away Restricted Time rate for 2018 is currently at 0.0, well below the comparable industry rate of 3.90. From 2013 to 2017, the rate has ranged from 0.0 to 0.23, again well below the industry standard.
- In 2017, the SPR received four safety awards from the Occupational Safety and Health Administration's (OSHA) Voluntary Protection Program (VPP) Region VI. The Big Hill, Bryan Mound, and West Hackberry sites each received a Star of Excellence award, and the Bayou Choctaw site was recognized as a "Star Among Stars." A Star of Excellence award requires the site to have an incident rate at least 90 percent below the national average, and the "Star Among Stars" distinction recognizes Region VI sites that have incident rates at least 50 percent below the national average.

Finally, since 2015, the SPR has undergone a total of 18 Inspector General or GAO audits, which highlights the high level of external oversight on the SPR program. These audits help to ensure that the SPR program meets high levels of performance across a range of values – including financial, programmatic, environmental, and safety – just as taxpayers expect from Government programs.

Mr. Chairman, and members of the Committee, this completes my prepared statement. I would be happy to answer any questions you may have at this time.