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THE FUTURE OF THE STRATEGIC PETROLEUM RESERVE

*Center for Strategic and
International Studies*
May 6, 2015

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Risks

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By: *Kevin Book*

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OVERVIEW



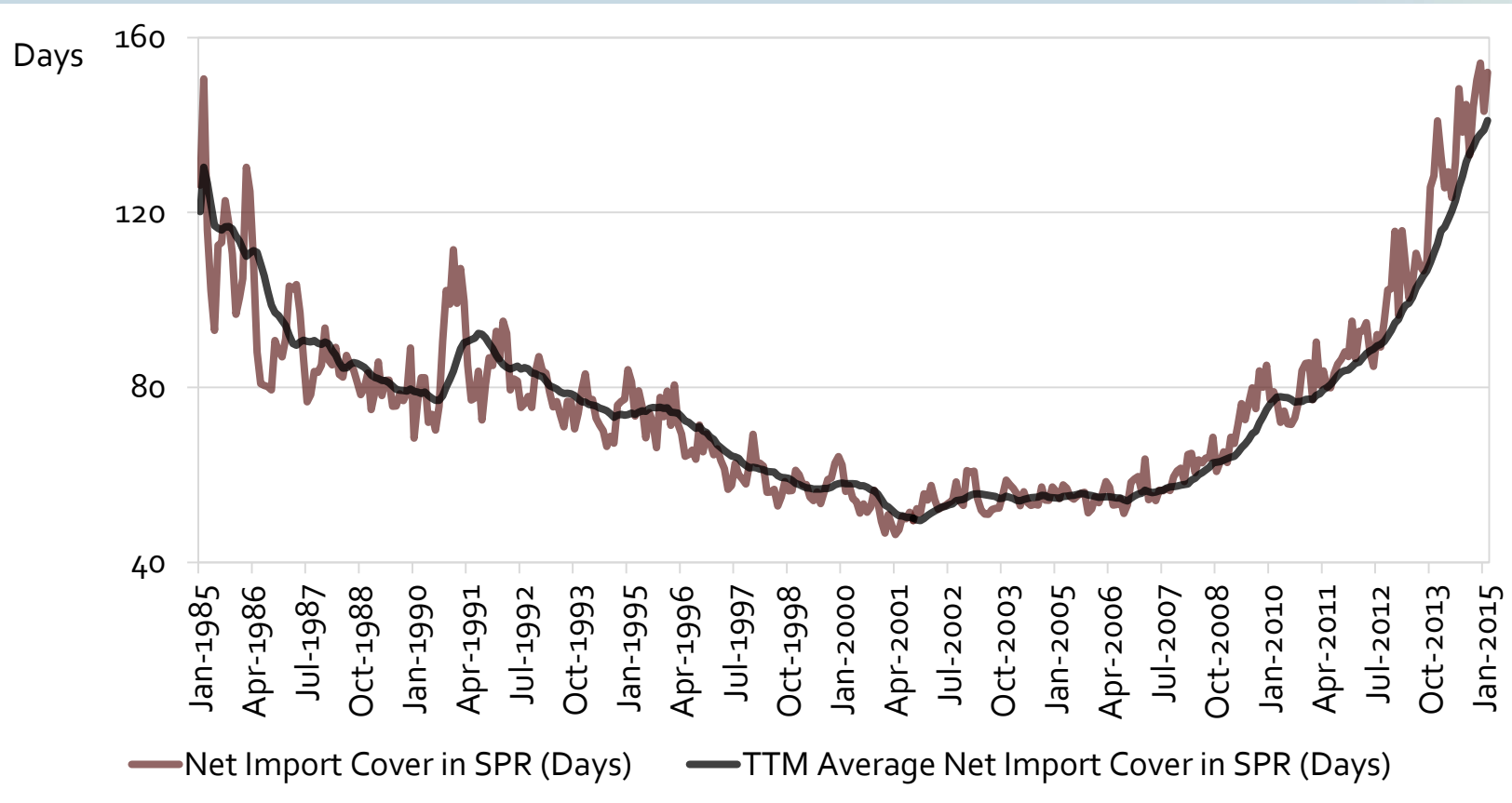
- ▼ Is the U.S. Over-Insured Against Oil Shocks?
- ▼ A Thought Experiment in Selling the SPR
- ▼ Congress and the Strategic Reserve
- ▼ “\$15B Walks Onto Capitol Hill...”
- ▼ Products Reserves and Private Incentives

Source: ClearView Energy Partners, LLC

IS THE U.S. CARRYING TOO MUCH INSURANCE?



The SPR Alone Now Covers ~141 Days of U.S. Net Petroleum Imports on a TTM Average Basis

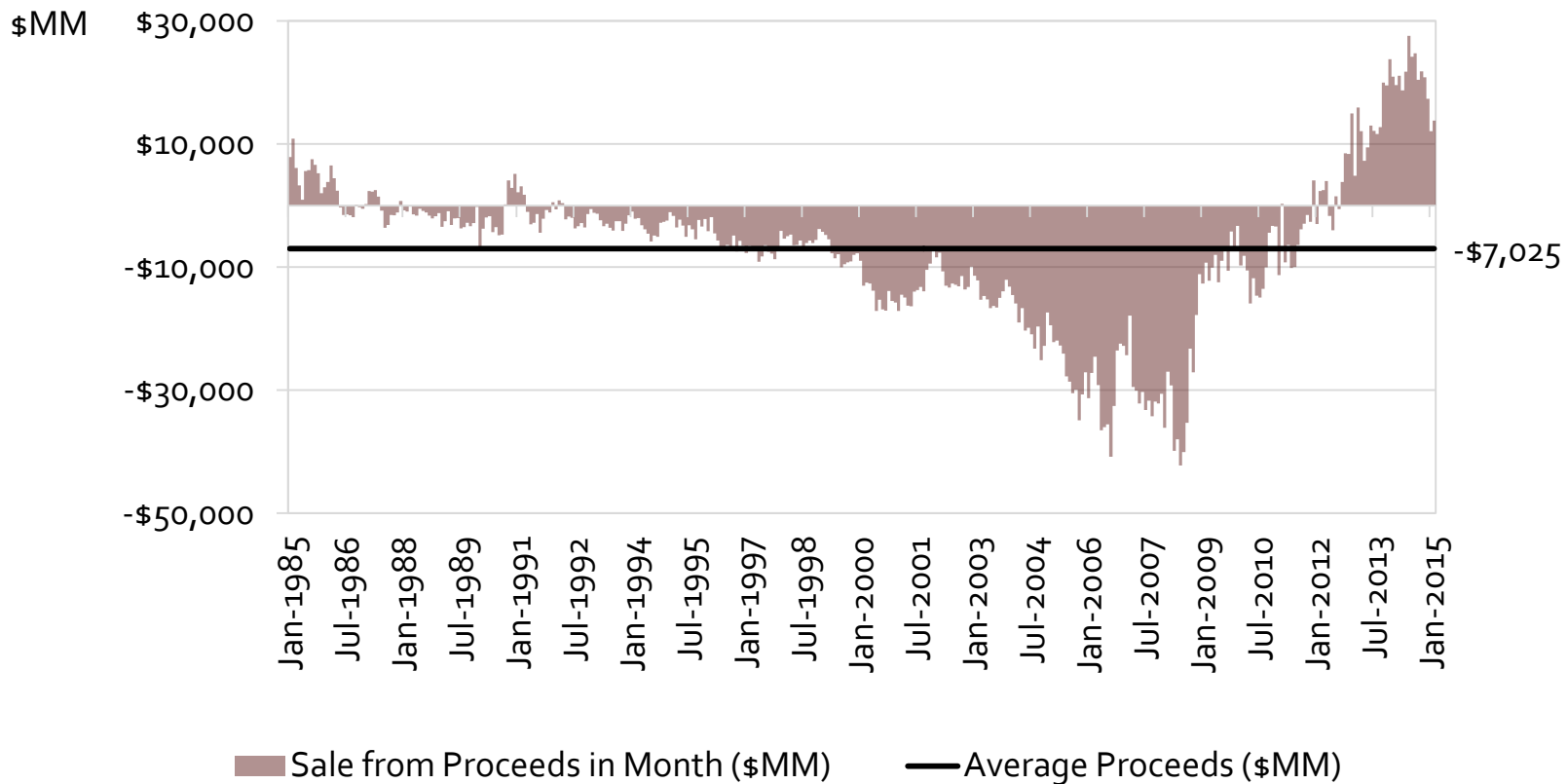


Source: ClearView Energy Partners, LLC using EIA data as of May 4, 2015

RIGHT-SIZING THE SPR: THOUGHT EXPERIMENT



Over ~30 Years (1/85-2/15), Buying and Selling to Hit 90 Days Would Have Averaged to a Loss

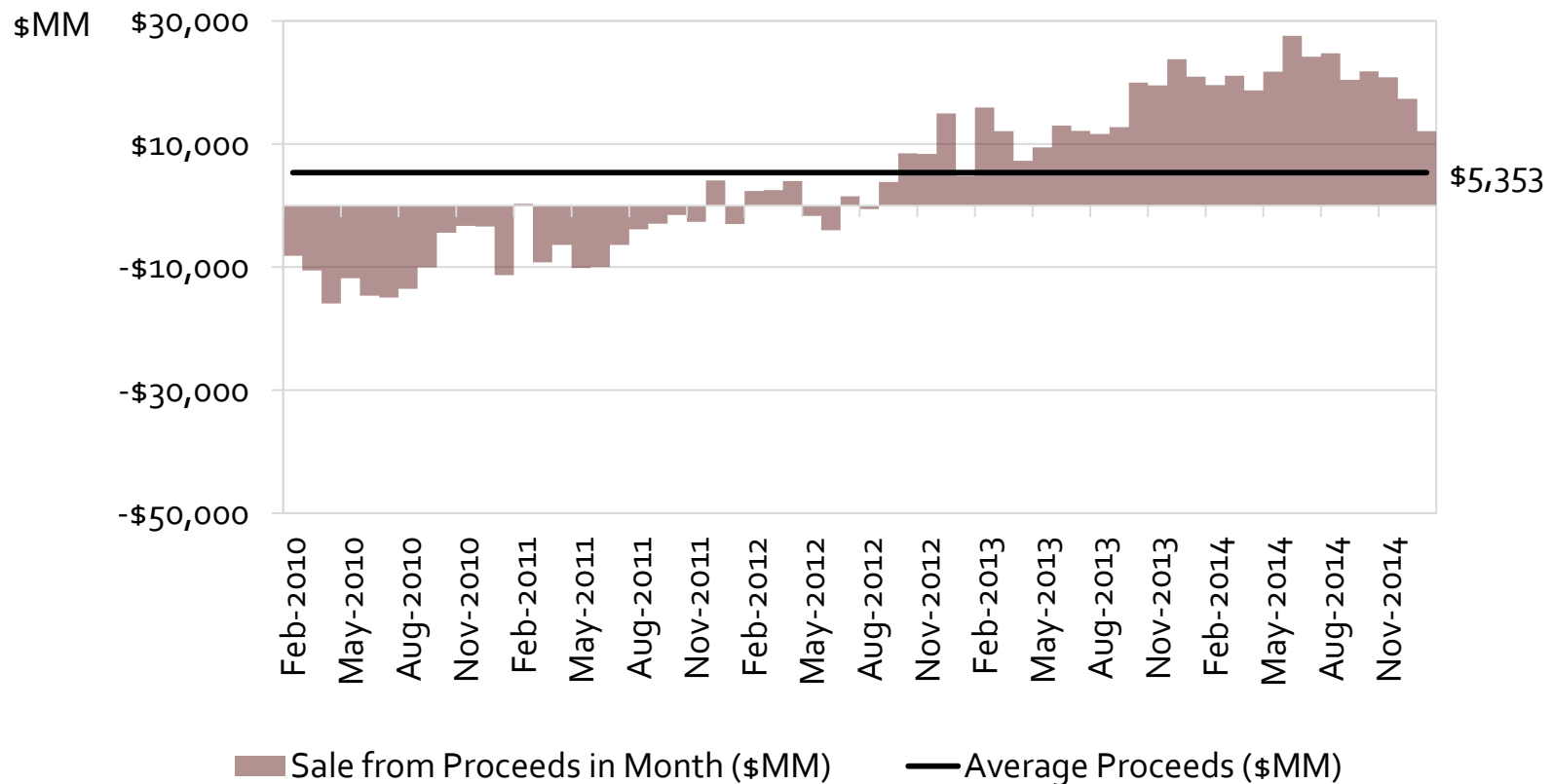


Source: ClearView Energy Partners, LLC using BLS and EIA data as of May 4, 2015

RIGHT-SIZING THE SPR: THOUGHT EXPERIMENT

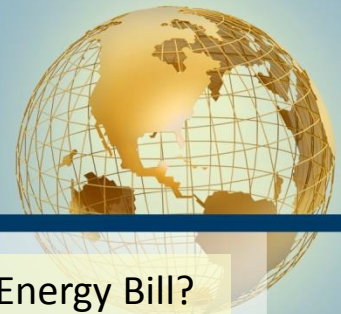


For 60 Months Thru February, Buying and Selling to Hit 90 Days Would Have Averaged to a Profit



Source: ClearView Energy Partners, LLC using BLS and EIA data as of May 4, 2015

CONGRESS AND THE STRATEGIC RESERVE



Recent Milestones On The Path Towards Potential SPR “Right-Sizing” in a Consensus Energy Bill?

- ▼ March 12, 2014 – DOE “test with benefits”
- ▼ May 2, 2014 – DOE announces NGSR
- ▼ July 10, 2014 – DOE OIG Report
- ▼ September 30, 2014 – GAO Exports/SPR Report
- ▼ December 9, 2014 – “CROmnibus” blocks RPPRs and SPR sales without notice to Congress
- ▼ April 21, 2015 – DOE *Quadrennial Energy Review*
- ▼ April 30, 2015 – House E&C Subcommittee Hearing

Source: ClearView Energy Partners, LLC

CONGRESS AND THE STRATEGIC RESERVE



July 2014 DOE OIG Report Recommends Long-Range Strategic Review of SPR, Including...

- ▼ [...] Defining **a crude oil fill level** the Reserve can reliably maintain, considering budgetary constraints, ongoing and future maintenance requirements, and historic utilization.



Source: ClearView Energy Partners, LLC using text from the DOE OIG

CONGRESS AND THE STRATEGIC RESERVE



September 2014 GAO Report Highlights Changing Market Conditions and Points to “Right-Sizing”

- ▼ DOE has taken some steps to assess the implications of changing market conditions on the location and composition of the SPR **but has not recently reexamined its size.** [...]

Without such a reexamination, DOE cannot be assured that the SPR **is sized appropriately** and risks holding **excess crude oil** that could be sold to fund other national priorities.

Source: ClearView Energy Partners, LLC using text from the Government Accountability Office

CONGRESS AND THE STRATEGIC RESERVE



December 2014 “CROmnibus” Language Blocks Further Test Sales and RPPRs

SEC. 315. (a) NOTIFICATION OF STRATEGIC PETROLEUM RESERVE DRAWDOWN. —

None of the funds made available by this Act or any prior Act, or funds made available in the SPR Petroleum Account, may be used to conduct a drawdown (including a test drawdown) and sale or exchange of petroleum products from the Strategic Petroleum Reserve **unless the Secretary of Energy provides notice**, in accordance with subsection (b), of such exchange, or drawdown (including a test drawdown) to the Committees on Appropriations of the House of Representatives and the Senate.

Source: ClearView Energy Partners, LLC using text from the Library of Congress

CONGRESS AND THE STRATEGIC RESERVE



December 2014 “CROmnibus” Language Blocks Further Test Sales and RPPRs

(d)(1) NEW REGIONAL RESERVES. —

The Secretary may not establish any new regional petroleum product reserve —

(A) **unless** funding for the proposed regional petroleum product reserve is **explicitly requested in advance** in an annual budget submission and approved by the Congress in an appropriations Act; or

(B) **until 90 days after notification** of, and approval by, the Committees on Appropriations of the House of Representatives and the Senate.

Source: ClearView Energy Partners, LLC using text from the Library of Congress

CONGRESS AND THE STRATEGIC RESERVE



April 2015 *Quadrennial Energy Review* Highlights SPR “Optimization,” Including Sizing

- ▼ DOE should make investments to optimize the ability of the SPR to protect the U.S. economy in an energy supply emergency. [...]

This work **should be preceded by** DOE analyzing **appropriate SPR size and configuration** and carrying out detailed engineering studies.

Source: ClearView Energy Partners, LLC using text from the Department of Energy

CONGRESS AND THE STRATEGIC RESERVE



Key Takeaways from the April 30, 2015 House Energy and Commerce Subcommittee Hearing

- ▼ DOE Assistant Secretary of Fossil Energy Christopher Smith testifies before the House Energy and Commerce Committee's Subcommittee on Energy and Power
- ▼ Smith receives questions from 15 Members (7Rs, 8Ds); Seven Members' queries reference SPR size:
 - Subcommittee Chairman Ed Whitfield (R-KY)
 - Subcommittee Ranking Member Bobby Rush (D-IL)
 - Committee Chairman Emeritus Joe Barton (R-TX)
 - Rep. Paul Tonko (D-NY)
 - Rep. Jerry McNerney (D-CA)
 - Rep. David McKinley (R-WV)
 - Rep. Gene Green (D-TX)

Source: ClearView Energy Partners, LLC

CONGRE\$\$ AND THE \$TRATEGIC RE\$ERVE



\$15.5 B in Proceeds as of February (\$13.8 B on a Trailing, Twelve-Month Average Basis)

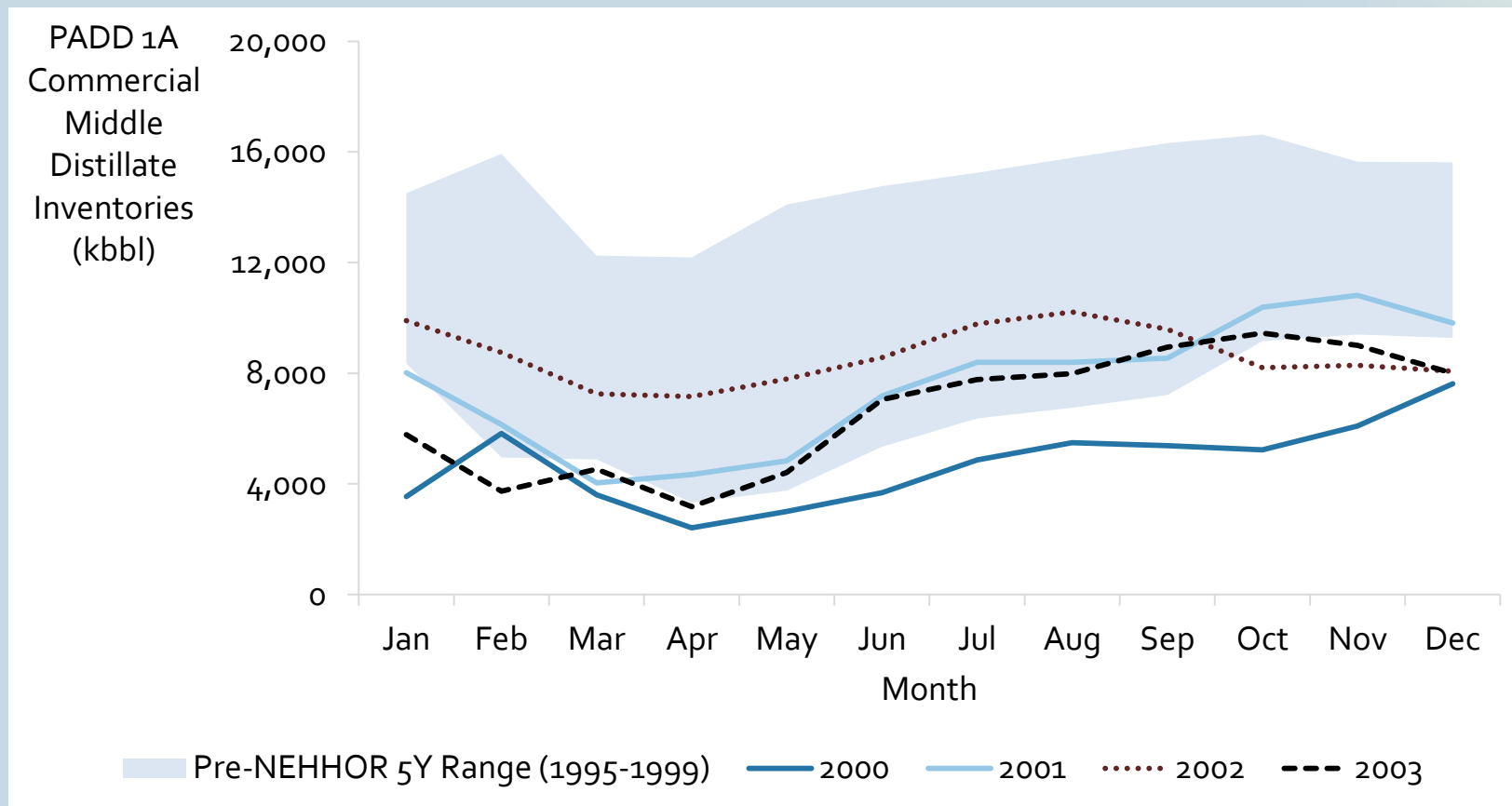
SPR Crude Inventories (Total in February 2015), kbbl	690,953
Net Petroleum Imports (As of February 2015), kbbl	4,544
SPR Crude in Terms of Net Petroleum Import Cover, days	152.1
IEA Net Import Treaty Obligation, days	90
Notional "Surplus," days	62.1
Notional "Surplus," kbbl	281,993
Market value of "Surplus" at \$55/bbl, \$B	\$15.5 B

Source: ClearView Energy Partners, LLC using BLS and EIA data as of May 4, 2015

WHAT TO DO WITH \$13.8 - \$15.5 B?



Products Reserves and Commercial Inventories: a NEHHOR Case Study



Source: ClearView Energy Partners, LLC using EIA data



QUESTIONS / DISCUSSION