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

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Hearing on Energy Security and the Strategic Petroleum Reserve

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Thank you, Chairman Murkowski, Ranking Member Manchin, and Members of the Committee. I appreciate the opportunity to be here today to discuss the Strategic Petroleum Reserve (SPR) and related U.S. energy security matters.

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. With the department's dedicated workforce, the SPR stands ready to respond to a petroleum supply disruption if a release from the SPR is ordered by the President and/or a collective action is initiated by the International Energy Agency (IEA), to which the US is a signatory member – which is also subject to Presidential approval.

Following recent attacks in Saudi Arabia, which temporarily reduced the world's supply of oil and caused a short-term price surge, President Trump authorized, if needed, the use of oil from the Strategic Petroleum Reserve (SPR) and SPR leadership validated that all of the SPR's sites remained drawdown ready. Further, the SPR coordinated with oil refiners in the Gulf Coast to determine the immediate impact, if any, on their crude oil supply, and to ensure they understood the process for crude oil exchanges. At this time, there has been no release from the SPR in connection with the recent attacks in Saudi Arabia, nor is there expected to be.

The attack highlighted the vulnerability of a critical world energy resource, and points to further efforts to increase oil supply chain resiliency. The SPR has played a leading role in this for the past 40 plus years. A major factor in the attack not having a profoundly negative impact on global oil supplies is U.S. oil production growth has recently contributed to high levels of global crude oil inventory. And, with respect to the SPR, if the United States had been or is called on to fill a supply gap left by the attack, the SPR is well positioned to play a key role in maintaining a stable global oil supply.

The SPR's 645 million barrels of crude oil—and similar stockpiles in other nations—is a disincentive to any actor looking to disrupt the world's supply of crude oil and is a moderating factor to keep prices for products such as gasoline, diesel fuel, and jet fuel from rising higher than they would otherwise in supply disruptions such as the recent attacks.

SPR Background

In addition to protecting the United States from severe petroleum supply disruptions, the SPR enables the United States to carry out its treaty obligations under the International Energy Program as implemented by the IEA.

Even in today's energy landscape, the SPR, established by the Energy Policy and Conservation Act of 1975 (EPCA), remains a national energy security asset. Since the 1975 establishment of the SPR, changes in U.S. and global oil markets have led to changes in the SPR operational environment. At the SPR's inception, U.S. crude 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, the United States has reduced its dependence on oil imports, and according to the U.S. Energy Information Administration (EIA), the United States is expected to become a net exporter of petroleum by 2020, thereby obviating the IEA stockholding commitments noted below. The IEA also projects the United States will lead the world in petroleum exports by 2024.

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

1. First, as a net importer of oil, comprising crude oil, natural gas liquids and refined products, the United States must maintain oil stock inventories, whether held by industry or government, equal to at least 90 days of net oil imports. Of the 30 IEA member countries, 27 are net importers (including the United States) and have the same obligation. The remaining three members do not have a stockholding obligation because they are net oil exporters. According to the IEA, as of April 1, 2019, the United States held 379 days of net oil imports including both private and SPR stocks. However, by the end of 2020, the United States will likely no longer have this requirement by becoming a net petroleum exporter for a year.
2. Second, the United States must participate in an IEA collective action. This applies to all IEA member nations, including countries that are net petroleum exporters. An IEA member nation's contribution to an IEA collective action response is based on its final consumption during the most recent four quarters with a delay of one-quarter necessary to collect information. This obligation can be met by various measures a member nation may choose, including release of strategic or commercial stocks. According to the IEA, as of April 1, 2019, the U.S. share in an IEA collective action response is 41.9% of the barrels released. The U.S. government has relied on the SPR to meet this requirement, although commercial stocks may also contribute voluntarily.

In the event of an international oil supply disruption significant enough for the President to authorize a release from the SPR, U.S. domestic conventional and unconventional production alone would likely be unable to ramp up quickly enough to make up for the lost barrels in a crisis. Thus, the SPR maintains the ability to drawdown and deliver crude oil within thirteen days of a Presidential Finding, to bridge the months it would take for domestic production to ramp up.

SPR Drawdown Authorities

If the President determines a severe energy supply disruption exists, he may order the drawdown and sale of crude oil from the SPR, pursuant to Section 161 of EPCA.

- Drawdowns. If the President finds there exists a circumstance that "constitutes, or *is likely to become*, a domestic or international energy supply shortage of significant scope or duration" and "action taken....would assist directly and significantly in preventing or reducing the adverse impact of such shortage", the Secretary can direct the SPR to drawdown and sell crude oil if there is no impairment to U.S. obligations under the IEP or national security. However, under this scenario, the release and drawdown is limited to less than 30 MMB, for no more than 60 days, and by statute there must remain at least 340 MMB at all times in the SPR. [Partial Drawdown Authority]

- Exchanges. Pursuant to Sections 159 and 160 of EPCA, the SPR may release oil to a producer or refiner in an Exchange. Under an Exchange, the producer or refiner would return to SPR the same quantity/quality of oil generally within 1-2 months, with a typical premium of 2.5%–3.0%. An exchange can be done within 48 hours after the Secretary of Energy approves the request as outlined in EPCA. Although there is no limit under EPCA on the number of barrels the SPR can exchange, SPR, as a source of last resort, limits exchanges to a reasonable supply to avoid being used by commercial firms for making additional profit outside of the normal free market system.

SPR Drawdown Practices

- Under an EPCA Section 161 directed drawdown, SPR crude oil is released to the highest qualified bidder(s) in a competitive sales process.

- Competitive Sales. Once directed by the President or Secretary to drawdown and sell crude oil, the SPR announces in a public Notice of Sale the amount and type of crude oil available, the release locations, and the timeline and procedures for submitting bids and taking delivery (if the bidder is successful). Once SPR receives and evaluates offers, it notifies apparent successful offerors, at which time the offerors submit their letters of credit and begin the process of scheduling deliveries.

- *Typical Timeline for a Sale*:

Day	Activity
Day 1	Issue Notice of Sale
Day 5	Receive offers and bid guarantees
Day 7	Notify Apparent Successful Offerors (ASOs) Announce results to public
Day 8-13	Receive ASO performance guarantee, i.e., Letter of Credit (LOC)
Day 11-15	Award sale contracts
Day 13	Commence early deliveries, if requested
Day 15	Achieve maximum rate drawdown readiness
Day 30	Commence nominal delivery period and next sales cycle
20th of the Month after Delivery	Funds submitted by Successful Offeror for delivered crude oil

- *Note:* The SPR recently conducted a congressionally-mandated sale of nearly 10 MMB of crude oil from three SPR sites (Big Hill, Bryan Mound, and West Hackberry). Deliveries began in early October and will be complete in late November.
- *Note:* Pursuant to Section 404 of the Bipartisan Budget Act of 2015, the SPR will conduct another crude oil sale in the second quarter of FY 2020. By law, that sale is constrained to a specific dollar amount for SPR facilities modernization, as opposed to a specific volume of crude oil. Section 501 of the Consolidated Appropriations Act of 2018 grants SPR the flexibility to sell an additional 5 MMB in FY 2020 (originally scheduled for, but not required to be sold, in FY 2021). SPR could expedite these sales to earlier in FY 2020 if conditions warrant.

Conclusion

The SPR remains 100 percent drawdown ready if the President orders a release to protect the United States from petroleum supply disruptions and to fulfill our Nation's IEA treaty commitments. The recent attacks in Saudi Arabia serve as a reminder of the importance of this national security asset. Chairman Murkowski, DOE appreciates your commitment to the SPR and its mission to protect the United States economy from severe petroleum supply interruptions through the acquisition, storage, distribution, and management of emergency petroleum stocks.

I appreciate the opportunity to appear before you today and I am pleased to answer any questions the committee may have.