

# Focus on Fuels

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## SPR, Security of Supply or Slush Fund

The latest news related to the United States security of energy supply has nothing to do with renewable fuel, but rather with sales from the Strategic Petroleum Reserve. The SPR began as a result of shocks to petroleum prices and availability in the early 1970s. The reserve was authorized by the Energy Policy and Conservation Act (EPCA) of 1975. EPCA authorized a reserve of up to 1 billion barrels of crude oil. The reserve was intended to provide a buffer in the case of crude oil supply disruptions.



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## TM&C Services in Fuel Regulations

TM&C provides a full range of services in its fuels regulatory practice. Some of these services are listed below.

- Preparing, reviewing and submitting fuels reports, including CDX submissions.
- Facility audits for compliance with fuels programs.

## SPR, Security of Supply or Slush Fund

### *SPR Facts*

Current storage design capacity of the SPR is about 714 million barrels. The total crude oil stored as of 2/10/2017 is about 695 million barrels or about 97% of design capacity. As of July 1, 2016, the oil was stored in one of four locations, Bryan Mound - Freeport, Texas (~245 million barrels), Big Hill - Winnie, Texas (~165 million barrels), West Hackberry - Lake Charles, Louisiana (~210 million barrels), and Bayou Choctaw - Baton Rouge, Louisiana (~75 million barrels). The reserve can be drawn down at a rate of 4.4 million barrels per day. Typical refinery crude runs in the United States are on the order of 16-17 million barrels per day. The crude is approximately 38% light sweet and 62% sour. Assuming an average market price for the crude oil inventory of \$50 per barrel, yields a current value for the inventory of about \$35 billion.

### *Use of SPR Crude Oil*

According to the government's SPR website, there have been nine outright sales from the SPR since 1985. Two of those sales in 1996 were

- Interaction with EPA to pose fuels-related questions.
- Industry specialist assistance for required gasoline attestations.
- Industry specialist assistance for in-line blending audits.
- Assistance in setting up a fuels compliance group/program.
- Personnel reviews of compliance-related groups.
- Compliance status reviews and recommendations.
- Negotiations/consultation during EPA enforcement actions.
- 3rd-Party Engineering reviews.
- Due diligence reviews of facilities and companies in RFS RINs Program.

for budget deficit reduction. The others were primarily to test the system or for system maintenance reasons. In addition, there have been around 12 crude oil exchanges due to various hurricanes, storms or other physical reasons the SPR was more accessible. At the beginning of 2017, a sale of 10 million barrels of oil was completed to provide funding to pay for repairs to the SPR. Another sale has been authorized through the 21<sup>st</sup> Century Cures Act to pay for medical research. Most of the sales and uses are logical for a strategic petroleum reserve; however, the latest sale, scheduled to benefit medical research, breaks ground not tilled since 1996 when the reserve was used to reduce the budget deficit.

#### *Historical Perspective*

The United States has had a Naval Petroleum Reserve (NPR) for many years. The NPR was slightly different than the SPR in that it was existing crude oil or shale oil reserves that were left untouched in ground in six different fields for the first three quarters of the 20<sup>th</sup> century. The NPR at Elk Hills began production in 1976. Revenues for the sale of the crude oil were added to the United States Treasury. The privatization of the six fields was NPR-1 (Elk Hills) sold to Occidental Petroleum in February 1998 for \$3.65 billion, Naval Oil Shale Reserve (NOSR) 1 and 3 opened for mineral leasing, NOSR-2 returned to the Northern Ute Tribe in 2000-2001, NPR-2 transferred to the Department of the Interior for mineral leasing, and the sale of NPR-3 (teapot Dome) in January 2015. Essentially all of the reserves were sold or monetized through mineral agreements. History tells us that under economic stress, liquid assets are monetized.

#### *Projected Use of the Strategic Petroleum Reserve*

It seems likely that a cash-strapped government, with a valuable, easily monetized asset like crude oil will use it to fund government operations or newly legislated expenditures. Some important questions to be answered are what to spend the money on (decrease debt or new projects), how much should be sold to maintain the physical plant (currently monetizing around 25 million barrels for SPR repairs), how much of the reserve should be monetized (all of it or some of it), and should we have a petroleum reserve at all? Delaying production similar to the Naval petroleum reserve philosophy was logical when the United States had few if any imports. There is still some logic to using reserves outside of the United States and preserving our reserves. However, the infrastructure to actually produce crude oil is extensive and reserves that are undeveloped could take years to put on stream. It is unlikely that delaying production would be useful in an emergency situation. The current SPR strategy can and has been used for some very short term weather interruptions. However, in the longer term, a reserve that holds only 40-45 days of the national supply is a stop gap that may cost more to maintain than it might pay off when used. The SPR is one more item to add to the new Administration's list of things to review.

It's going to be an interesting year. Many of the givens from the past eight years are likely to be re-imagined into significantly different applications of the rules. We keep track of the developments in these areas and can help to guide you as this Administration seeks to put its stamp on the fuels regulations.

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