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Mr. Chairman and Members of the Committee, I am pleased to be here to discuss the Strategic Petroleum Reserve and the actions taken this past week by President Clinton to use the Reserve to help avert possible fuel shortages this winter.

The Reserve was authorized in 1975 in the aftermath of the first Arab oil embargo. The Energy Policy and Conservation Act, signed into law by President Gerald Ford on December 22, 1975, provides that the Reserve may consist of up to one billion barrels of petroleum products. The current plan for the Reserve, however, provides for 750 million barrels of crude oil and 2 million barrels of heating oil.

The Strategic Petroleum Reserve consists of four oil storage sites – two in Louisiana and two in Texas – with capacity to store 700 million barrels. The first oil for the Reserve was delivered on July 21, 1977, and today the Reserve holds 571 million barrels of crude oil. The most common measure of the relative size of the Strategic Petroleum Reserve is to compare its inventory to the net daily volume of petroleum imported into the United States. The Reserve inventory now equates to between 50 and 60 days of import protection.

We also are establishing a regional reserve of heating oil in the Northeast as a component of the Strategic Petroleum Reserve. One million barrels of heating oil are to be located in the New Jersey portion of New York harbor and another one million barrels in New Haven, Connecticut. A portion of the heating oil stocks is already in place, and the entire 2 million barrels will be in place early in October.

The Gulf Coast Reserve crude oil is stored in caverns that have been hollowed from massive salt domes. These domes are common through the Gulf region, and provide the most advanced, lowest cost, and environmentally friendly method of long term petroleum storage. Our facilities are located near major refinery centers and connected to commercial pipelines and shipping terminals, which allow the rapid release of oil to the marketplace.

The President's Decision to Use the Strategic Petroleum Reserve

On September 22, 2000, President Clinton directed the Department of Energy to use the Strategic Petroleum Reserve to help bolster domestic oil supplies, especially the critically low inventories of heating oil that many families will need this winter.

The Department of Energy will exchange crude oil from the Reserve. Companies that obtain oil will be required to return comparable or higher quality crude oil to the Reserve in the fall of 2001. Because oil prices are expected to be lower then, the companies will return the amount they obtained plus additional quantities as a bonus percentage that will be specified in the offers. This ultimately will increase the amount of oil in the Reserve and enhance the nation's "insurance" against future energy supply disruptions.

The President made the decision to carry out the oil exchange because of concerns that lagging petroleum product inventories could create potentially severe hardships for many American families this winter. Today, distillate inventories across the country, which include heating oil, are 19 percent lower than they were a year ago. On the East Coast, where 36 percent of families use heating oil to stay warm, distillate inventories are lower still: 40 percent less than last year's levels. In New England, heating oil inventories are closer to 65 percent lower than last year.

While global oil production has been increased in recent months due in part to the Administration’s diplomatic efforts – production increases have added three-and-a-half million barrels of oil per day to the world market – demand continues to siphon off the extra barrels before they move into inventories. Thus, U.S. crude stocks remain very low, and stocks of heating oil and other distillate fuels are at critically low levels.

The President’s action will add the equivalent of a million barrels per day to the U.S. market over a period of 30 days, a temporary infusion of oil that could begin quickly to restore a better balance between supply and demand. The action will likely add an additional 3-to-5 million barrels of heating oil this winter, if refineries could match higher runs and yields seen in the past.

This past Monday, September 25, the Energy Department issued the exchange solicitation from its New Orleans office. Offers will be due this Friday, September 29. The Energy Department will evaluate the bids and negotiate "best and final" offers next week, and contracts are expected to be awarded on Friday, October 6. Companies offering to return the most crude oil of a comparable or higher grade next August through November will be awarded contracts.

The solicitation calls for moving the crude oil to successful offerors during November, although the Energy Department will be able to accommodate earlier deliveries if an offeror can make the necessary transportation arrangements.

Statutory Authorities for Exchanging Reserve Oil

The exchange initiative is authorized by Section 106 of the Energy Policy and Conservation Act. This section authorizes the Secretary, for purposes of implementing the Strategic Petroleum Reserve Plan, to place in storage, transport, or **exchange**:

1) crude oil produced from Federal lands, including crude oil produced from the Naval Petroleum Reserves to the extent that such production is authorized by law;

2) crude oil which the United States is entitled to receive in kind as royalties from production on Federal lands; and

3) petroleum products acquired by purchase, **exchange**, or otherwise. *(emphasis added)*

Emergency Oil Sales from the Reserve

As I've noted, the President's action this past week has been to offer an exchange of crude oil as a way to supplementing supplies on the market over the next two months while replenishing – and adding to – the Strategic Reserve's inventory next year. The Committee has also expressed an interest in the process for an emergency sale and drawdown of Strategic Reserve oil.

The authority to draw down the Reserve is dependent on a Presidential finding of severe energy supply interruption or that a drawdown is necessary to comply with our international obligations. I have attached to this statement the relevant language from the Energy Policy and Conservation Act that defines the conditions under which the Reserve can be used in this manner.

In the event of an emergency oil sale, refiners and trading companies would be the bidders for Reserve oil under standard sales provisions which we have distributed to prospective bidders and have posted on our web site. Knowing in advance the procedures for a competitive sale permits companies to respond to a solicitation and the government to carry out its bid evaluation and award process in a rapid and efficient manner.

To ensure that our operation and potential use of the Strategic Petroleum Reserve remains consistent with the practices of private industry, we routinely meet with companies that could potentially be involved in the use of the Reserve. Recently, for example, we have had customer service teams visit 30 companies this year that account for 96 percent of the Nation's refining capacity.

This close coordination with industry is one of the primary reasons why the Department can issue a solicitation for an emergency oil sale within 24 hours of a Presidential finding and complete the bid process and be ready to deliver oil to successful offerors within 15 days.

If called upon to counter a major disruption, the Reserve can supply oil to commercial buyers at a rate of more than 4.1 million barrels per day for 90 days. During this time, the Reserve would be the equivalent of the fifth largest oil producing country in the world.

After the 90-day maximum drawdown period, the rate of oil release would decrease as storage caverns are emptied. At one million barrels per day, the Strategic Reserve could supply a steady flow of crude oil to the market for approximately a year-and-a-half.

The large volumes of oil and the rapidity with which it can be moved into the marketplace makes the Strategic Petroleum Reserve a formidable deterrent to countries that might consider using the flow of oil into world markets for political leverage.

Since the creation of the Reserve the only time a President has made such a finding was during the Gulf War in 1991, at which time the Energy Department offered nearly 34 million barrels and sold about 17 million barrels of Reserve oil.

The Need for Reauthorizing EPCA

As Members are aware, the Energy Policy and Conservation Act (EPCA) expired on March 31, 2000. Our General Counsel staff and senior legal staff at the Department of Justice, however, have concluded that the authorities of EPCA to manage the Strategic Petroleum Reserve have been effectively extended by Congressional enactment of current year (FY2000) appropriations for the Reserve.

It is important, however, that there be no ambiguity about the President's ability to use the Strategic Petroleum Reserve in the future. EPCA provides the only direct and full authority to operate the Reserve and is the strongest underpinning for our emergency oil response capability. That is why the President and Secretary Richardson have continued to call on Congress to renew the authorities of EPCA. The House of Representatives has acted twice in the past several months to reauthorize the legislation, and hopefully, the Senate will take action in the near future.

EPCA reauthorization is also important because the Act provides limited antitrust protection for U. S. oil companies assisting us and the International Energy Agency to plan for and respond to an oil emergency in a coordinated manner.

Meeting Our International Obligations

The U.S. Strategic Petroleum Reserve is the world's largest emergency stockpile of crude oil. As such, it helps the United States satisfy its international obligations to other member nations of the International Energy Agency. Under the *Agreement on an International Energy Program*, the United States and other member countries of the International Energy Agency (IEA) have agreed to store the equivalent of 90 days of net petroleum imports against the possibility of supply interruptions, and to jointly respond to such interruptions. The U.S. meets its obligations by a combination of Government-owned stocks and private sector inventories. In total the member countries of the IEA account for approximately 1.2 billion barrels of petroleum reserves.

The Desert Storm drawdown of 1991 was conducted in coordination with the IEA and other OECD nations. This concerted effort was one of the primary reasons why oil markets stabilized and prices moderated during the Persian Gulf conflict.

Mr. Chairman, this concludes my opening statement and I will be pleased to answer any questions that you and the Members of the Committee may have.

Attachment

The Energy Policy and Conservation Act
Statutory Provisions for an SPR Drawdown

DEFINITIONS
SEC. 3. As used in this Act:
(8) The term "severe energy supply interruption" means a national energy supply shortage which the President determines -

(A) is, or is likely to be, of significant scope and duration, and of an emergency nature;

(B) may cause major adverse impact on national safety or the national economy; and

(C) results, or is likely to result, from (i) an interruption in the supply of imported petroleum products, (ii) an interruption in the supply of domestic petroleum products, or (iii) sabotage or an act of God.

DRAWDOWN AND DISTRIBUTION OF THE RESERVE
SEC. 161.
(2) For purposes of this section, in addition to the circumstances set forth in section 3(8), a severe energy supply interruption shall be deemed to exist if the President determines that -

(D) an emergency situation exists and there is a significant reduction in supply which is of significant scope and duration;

(B) a severe increase in the price of petroleum products has resulted from such emergency situation; and

(C) such price increase is likely to cause a major adverse impact on the national economy.

(g)(1) The Secretary shall conduct a continuing evaluation of the Distribution Plan. In the conduct of such evaluation, the Secretary is authorized to carry out test drawdown and distribution of crude oil from the Reserve. If any such test drawdown includes the sale or exchange of crude oil, then the aggregate quantity of crude oil withdrawn from the Reserve may not exceed 5,000,000 barrels during any such test drawdown or distribution.

(h)(1) If the President finds that -

(A) a circumstance, other than those described [above] exists that constitutes, or is likely to become, a domestic or international energy supply shortages of significant scope or duration; and
(B) action taken....would assist directly and significantly in preventing or reducing the adverse impact of such shortage,

then the Secretary may...draw down and distribute the Strategic Petroleum Reserve.

(2) In no case may the Reserve be drawn down under this subsection -

(A) in excess of an aggregate of 30,000,000 barrels with respect to each such shortage;

(B) for more than 60 days with respect to each such shortage;

(C) if there are fewer than 500,000,000 barrels of petroleum product stored in the Reserve; or

(D) below the level of an aggregate of 500,000,000 barrels of petroleum product stored in the Reserve.