

ONE HUNDRED THIRTEENTH CONGRESS
Congress of the United States
House of Representatives

COMMITTEE ON ENERGY AND COMMERCE

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WASHINGTON, DC 20515-6115

Majority (202) 225-2927
Minority (202) 225-3641

May 12, 2014

The Honorable Ernest Moniz
Secretary
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Dear Secretary Moniz,

Pursuant to Rules X and XI of the United States House of Representatives, the Committee on Energy and Commerce is examining the Department of Energy's (DOE) management of the Strategic Petroleum Reserve (SPR).

The SPR was authorized under the Energy Policy and Conservation Act (EPCA) of 1975 to help prevent a repetition of the economic disruption caused by the Arab oil embargo of 1973 to 1974 and is comprised of 62 underground storage caverns that were solution-mined from naturally occurring salt domes located at four sites in Texas and Louisiana. The current capacity of the SPR is 727 million barrels of crude oil.¹

According to Energy Information Administration data, at present, the United States has stockpiled more crude oil than at any time since the Great Depression due to increased domestic production from a combination of horizontal drilling and hydraulic fracturing technologies used across shale formations nationwide.² In fact, commercial inventories – which exclude contents of the SPR – rose 3.52 million barrels in mid-April 2014 to 397.7 million, the highest level since 1931.³

On March 12, 2014, DOE announced it was conducting a test drawdown and sale of 5 million barrels of SPR oil over a 30-day delivery period pursuant to the authority of the Secretary of Energy under EPCA Section 161(g). This is the first time DOE has exercised this authority

¹ As of April 25, 2014, the SPR held 693.6 million barrels.

² Mark Shenk, "Shale Boom Sends U.S. Crude Supply to Highest Since 1930s," *Bloomberg*, April 23, 2014, available at: <http://www.bloomberg.com/news/print/2014-04-23/u-s-crude-supply-climbs-to-highest-level-since-1931.html>.

³ *Id.*

since 1990.⁴ According to DOE spokesman Bill Gibbons, “[d]ue to the recent dramatic increase in domestic crude oil production, significant changes in the system have occurred” necessitating the test sale in order to “appropriately assess the system’s capabilities in the event of a disruption.”⁵ The test sale occurred against the backdrop of increased oil production nationwide, as well as continuing threats of global energy supply interruptions, the first changeover in SPR’s management and operating (M&O) contractor in twenty years, and an aging SPR infrastructure.

DOE’s fiscal year (FY) 2015 proposed budget of \$205 million for the SPR addresses several major, yet deferred, maintenance activities, including oil degasification operations, the restoration of the SPR’s maximum drawdown capability – which had declined from a designed rate of 4.4 million barrels per day to 4.25 million barrels per day, at the time of the budget’s release – and efforts to reverse diminished cavern capacity due to cavern creep, a geological force that causes caverns to close over time, thereby decreasing space to store oil.⁶

On May 2, 2014, DOE announced the creation of the first Federal regional refined petroleum product reserve containing gasoline.⁷ This marks a shift from current SPR use; at present, the SPR contains crude oil, but does not contain refined petroleum products. According to the announcement, based on the “lessons learned from the major fuel supply disruption in the aftermath of the storm” [Superstorm Sandy], DOE “will establish two Northeast reserve locations near New York Harbor and in New England. Each location will store 500,000 barrels of gasoline, enough to provide some short-term relief in the event of significant disruptions.” The announcement also states that DOE “anticipates awarding contracts for commercial storage, service, and product acquisition in order to launch the reserve by late summer of 2014.” Notably, however, neither the FY 2014 nor FY 2015 DOE budgets mention such a reserve.

Efficient and effective management of the SPR is an important component of our nation’s energy security. As the summer driving season approaches and tensions in some of the world’s most resource-rich areas and elsewhere show no sign of abating, the obligation of Congress, and especially this Committee, to remain vigilant in its oversight of DOE’s stewardship of this important program is clear.

In order to help the Committee understand DOE’s management and operation of the SPR, as well as to evaluate its recently announced plans to create a regional refined petroleum product reserve, we request that you contact Committee staff to arrange a briefing with appropriate DOE Office of Fossil Energy, SPR Project Management Office, and/or M&O contractor staff, to occur no later than Tuesday, May 27, 2014. This briefing should address the following issues:

⁴ Ayesha Rascoe and Valerie Volcovici, “U.S. Surprises Oil Market with Sale from Strategic Reserve,” *Reuters*, March 12, 2014, available at: <http://www.reuters.com/article/2014/03/12/us-usa-energy-reserves-idUSBREA2B12V20140312>.

⁵ *Id.*

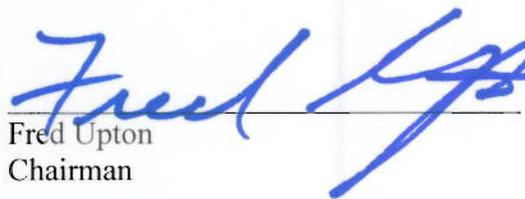
⁶ DOE, Office of Chief Financial Officer, *FY 2015 Congressional Budget Request*, Volume 3, pp. 634-654, (March 2014), available at: <http://energy.gov/sites/prod/files/2014/04/f14/Volume%203.pdf>.

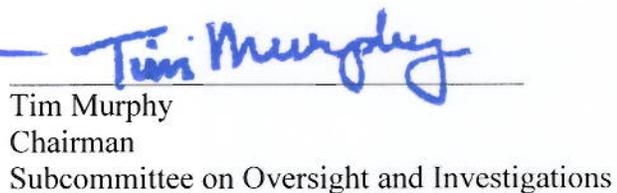
⁷ DOE, “Energy Department Announces First Regional Gasoline Reserve to Strengthen Fuel Resiliency,” May 2, 2014, available at: <http://www.energy.gov/articles/energy-department-announces-first-regional-gasoline-reserve-strengthen-fuel-resiliency>.

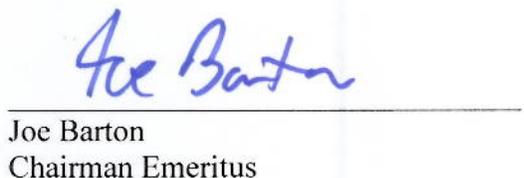
1. The March 2014 test-sale, including the purpose and scope of the sale; the results of the sale; and whether the sale identified any problems in the structure, mechanics, or capacity of the SPR.
2. The projected life cycle of SPR sites and infrastructure and DOE's maintenance of the SPR, including the deferred maintenance projects set out in the FY 2015 DOE Congressional Budget Justification and management of cavern creep.
3. DOE's assessment of the fuel mix contained in the SPR and whether current guidelines are adequate for determining when a drawdown of the SPR is appropriate.
4. DOE's authority to establish a refined petroleum product reserve; the role of the SPR in creating this reserve; the decision on its geographic location; and how DOE will select contractors and ensure the reserve's upkeep.

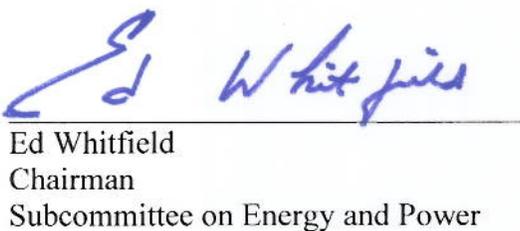
If you have any questions regarding this request, and to schedule the requested briefing, please contact Sam Spector with committee staff at (202) 225-2927.

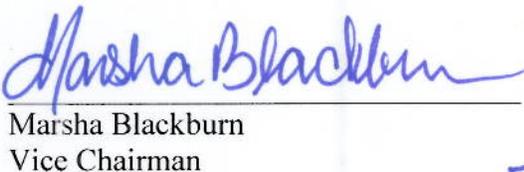
Sincerely,

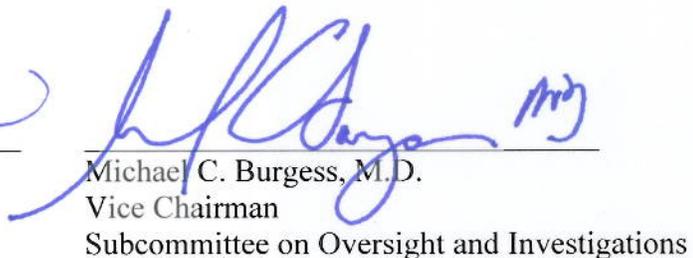

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The Honorable Diana DeGette, Ranking Member
Subcommittee on Oversight and Investigations

The Honorable Bobby Rush, Ranking Member
Subcommittee on Energy and Power