Insight

# Strategic Petroleum Reserves: Not a Scapegoat for Shortcomings

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The United States is required by international agreement to maintain a supply of energy reserves that have the capacity to support 90 days of oil imports. The Strategic Petroleum Reserves (SPR) serves as that vessel. The SPR currently holds 694 million barrels of oil and has the capacity to hold 713.5 million barrels. Current reserves hold the equivalent of 137 days of import protection, with the maximum emergency being 4.4 million barrels per day. The SPR was designed to mitigate future temporary supply disruptions and is the world's largest supply of ***emergency*** crude oil.

In an effort to reach a deal between the administration and Congressional leadership, the SPR sale was offered in the Bipartisan Budget Act of 2015 as part of a deal to fund the government in fiscal 2016 and 2017, and to lift the debt ceiling. The deal requires that 58 million barrels of oil be sold between 2018-2025. The revenue will be deposited in the General Fund of the Treasury to "reduce the deficit." The price of oil today begs the question, is it worth dipping into our emergency reserves at a time when the price of oil will not get us the best bang for our buck?

According to a U.S. News report "the current forward curve in the NYMEX futures market for West Texas Intermediate (WTI) crude oil extends only to December of 2023, and on a rising price curve reaches just $64.73; the average price over the 2018-2023 period is about $65 per barrel. The report goes on to say that "there appears to be a substantial gap between what the proposed sale is meant to generate and what the market sees as a likely price at the time of this writing."

The Congressional Budget Office scored this portion of the bill and estimated that oil would fetch approximately $87, well above the $65 per barrel marker where the NYMEX futures market pegs prices, making the sale to reduce the budget deficit worth over $5 billion.

Congress also intends to use SPR to offset the costs for $9 billion worth of roadwork in the Senate highway bill by selling 101 million barrels and another 64 million to fund a biomedical research and drug development bill, passed by the House earlier this year. At the $87 price predicted by CBO the U.S. could see over $5 billion from the sales to reduce the deficit, another $5.5 billion for the 21st Century Cures bill and $8.8 billion for the highway bill. However, the $87 estimate is an optimistic one. The below chart illustrates how much the U.S. will garner at the CBO predicted $87 estimate, at the more realistic level of $60, and at today's price of $43.

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Today, West Texas Intermediate (WTI) is trading at just over $45 a barrel At that price, it would take around 200 million barrels of SPR oil to pay for the $9 billion of roadwork, which is just under one-third of the current reserves the SPR has stockpiled. The 64 million barrels for the 21st Century Cures Act would amount to $2.9

billion which is nowhere close to the amount of money needed.

Factoring in the 8-year benchmark, the U.S. faces a loss of over $2.5 billion on the 58 million barrels sold if the price of oil remains the same. The U.S. could also face an additional loss of nearly $2.7 billion on the FDA overhaul and $4.2 billion on the 101 million barrels going to the highway bill. If the price of oil does not surge in the next 10 years, then the loss would be nearly $9.5 billion.

The SPR has only been sold six times in its history. These times include Operation Desert Storm, Hurricane Katrina and during the Libyan Civil War. Since 1985, the total amount drawn out of the SPR totals just over 113 million barrels, which averages out to 3.76 million barrels a year.

- 2014 Test Sale – 5 million barrels
- 2011 IEA Coordinated Release – 30,640,000 barrels
- 2005 Hurricane Katrina Sale – 11 million barrels
- 1996-97 total non-emergency sales – 28 million barrels
- 1990/91 Desert Shield/Storm Sale – 21 million barrels
- 1985 Test Sale – 1.0 million barrels[1]

The SPR was not intended to be used as a budgetary funding mechanism, and certainly not today where the price of oil does not justify the means. The SPR was designed to assist the United States in times of real need. If the intention of Congress is to sell portions of the SPR, it would be prudent to wait until the price of oil is at least in a range that gives the United States a decent return on investment. Congress needs to set thresholds for the price of oil necessary in order to sell off excess capacity from the SPR so that we do not see a net loss on our emergency reserves.

[1] http://energy.gov/fe/services/petroleum-reserves/strategic-petroleum-reserve/spr-quick-facts-and-faqs