



Legislative Bulletin.....July 24, 2008

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H.R. 6578—Consumer Energy Supply Act

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Order of Business: The bill is scheduled to be considered on Thursday, July 24th, under a motion to suspend the rules and pass the bill (therefore allowing no amendments to the bill, requiring a two-thirds vote for passage, and waiving all points of order). Normally, suspensions are not in order on Thursdays, therefore a motion to suspend the rules and pass H.R. 6578 would only be in order if the House passes [H.Res. 1367](#), a special rule providing for the consideration of a motion that the House suspend the rules on July 24, 2008, relating to H.R. 6578.

Summary: H.R. 6578 would direct the Secretary of Energy, within 15 days of this bill's enactment, to publish a plan to:

- Sell 70 million barrels of crude oil (light grade petroleum) from the Strategic Petroleum Reserve (SPR);
- Acquire an equivalent volume of heavy grade petroleum;
- Deposit the revenues from the SPR sales into the existing SPR Petroleum Account; and
- Use a necessary portion of these revenues to pay for the direct administrative and operational costs of the sale and acquisition.

The SPR sale would commence within 30 days of this bill's enactment, regardless of whether the Energy Secretary publishes the plan above, and would conclude within six months of this bill's

enactment. At least 20 million of the 70 million barrels would have to be offered for sale within the first 60 days of this bill's enactment.

The sale authorized by this bill could not deplete the SPR of more than 10% of its reserves as of the date of this bill's enactment. (70 million barrels is less than 10% of the current SPR reserves.)

The acquisition of heavy grade petroleum would have to:

- Start no sooner than six months after this bill's enactment;
- Conclude no later than five years after this bill's enactment;
- Maximize the monetary value to the federal government (including by deferring any deliveries to the SPR if such deliveries would yield more oil or more cash later); and
- Use the receipts from the sale of the light petroleum.

Additional Background:

SPR.

The Strategic Petroleum Reserve (SPR) is a federally maintained petroleum stockpile intended to make up for any shortfall caused by a temporary supply disruption. The SPR, which is the world's largest supply of emergency crude oil, was [first proposed in 1944](#) by Secretary of the Interior Harold Ickes and numerous times again by different leaders (including President Eisenhower) throughout the subsequent decades, but was not created until the embargo of oil flowing into the United States from many Arab nations shook America's economic foundations. The Arab oil embargo solidified the need for America to maintain an emergency oil supply should foreign sources again be cut off. The SPR was not created to help adjust the price of gasoline.

President Gerald Ford set the SPR into motion when he signed the Energy Policy and Conservation Act on December 22, 1975, which included a declaration of U.S. policy to establish a reserve of up to one billion barrels of petroleum. On July 21, 1977, the first oil—about 412,000 barrels of Saudi Arabian light crude—was delivered to the SPR.

The SPR currently contains [706.3 million barrels](#) of crude oil, with a capacity of 727 million barrels. The Energy Policy Act of 2005 authorized the expansion of the SPR to a one-billion-barrel capacity. SPR oil is stored underground in several sites along the Gulf Coast in Louisiana and Texas, where access to refineries, pipelines, and shipping is excellent. According to the Energy Department, the SPR represents about 58 days of import protection.

The world uses about 86 million barrels of oil per day, and U.S. consumption accounts for 21 million barrels of that total (64% of which the U.S. imports). Relative to these figures, the 706 million barrels in the SPR is not all that much, but it is an important reserve in case of national emergency.

Decisions to withdraw (“drawdown”) crude oil from the SPR are made by the President under the authorities of the Energy Policy and Conservation Act. In the event of a national energy emergency, SPR oil would be distributed by competitive sale. The SPR has been drawn down under these circumstances only twice (during Operation Desert Storm in 1991 and after Hurricane Katrina in 2005). Other drawdowns happened in 1985 (a small test of the drawdown procedures that had never been used before), several times in the late 1990s and 2000s (relatively small releases of oil to private companies during certain localized supply disruptions who then had to replace the oil in the SPR shortly thereafter), and non-emergency three times during 1996 (two times to offset higher federal appropriations elsewhere and one time to pay for the decommissioning of an SPR storage site that had fractured beyond repair).

<http://www.fossil.energy.gov/programs/reserves/spr/spr-drawdown.html>

The Energy Department reports that the maximum SPR drawdown capability is 4.4 million barrels per day. The fastest that any drawdown oil could enter the U.S. market would be 13 days.

The SPR allows the United States to meet most of its International Energy Agency obligation to maintain emergency oil stocks (the other portion is met by private reserves) and serves as a national defense fuel reserve.

The SPR contains only crude oil (as opposed to refined petroleum products) because, as the Energy Department notes, the U.S. petroleum import dependency is “overwhelmingly” crude oil, not refined products. In addition, crude oil is cheaper to acquire, store, and transport than are refined products. Crude oil does not degrade over time, as do refined products, and crude oil provides flexibility in responding to fluctuations in refined product market needs. Refined products are more expensive to maintain and are subject to changes in specifications mandated by environmental legislation.

The crude oil in the SPR is stored in salt formations, which, the Energy Department says, “offer the lowest cost, most environmentally secure way to store crude oil for long periods of time.” The salt formations are hollowed out using high-pressure water. Storing oil in these man-made caverns deep within rock-hard salt costs about \$3.50 per barrel in capital costs, whereas storing oil in above-ground tanks can cost \$15 to \$18 per barrel. Also, because the salt caverns are 2,000-4,000 feet below the surface, geologic pressures seal any crack that develops in the salt formation, assuring that no crude oil leaks from the cavern. The natural temperature differential between the top of the caverns and the bottom (a distance of around 2,000 feet) keeps the crude oil continuously circulating in the caverns, giving the oil a consistent quality.

For more information on the Strategic Petroleum Reserve, visit this webpage:

<http://www.fossil.energy.gov/programs/reserves/>.

Petroleum Grades.

The grade of petroleum (light versus heavy) is a measure of the density of hydrocarbons in the crude oil (higher proportion in the lighter oils, lower proportion in the heavier oils). The heavier the crude, the more impurities are in the oil and the harder it is to refine.

The American Petroleum Institute wrote the following in its publication, "[Understanding Today's Crude Oil and Product Markets](#)":

Generally speaking, lighter crudes require less processing to produce a relatively more valuable slate of petroleum products, such as gasoline, diesel, and jet fuel, than heavier crudes. The more sulfur contained in a crude oil, the more "sour" it is said to be and the more processing required before resulting petroleum products can be sold into the marketplace. Thus, "sour" crudes require more processing than "sweet" crudes. As spare refining capacity has diminished, particularly the capacity to turn heavy, more sour crude oil into high-valued products, the refining sector has placed a relatively higher value on lighter, sweeter ("light sweet") crudes than on heavier, more sour ("heavy sour") crudes. This is because light sweet crudes require less processing to produce a given volume of higher-valued products.

Thus, this legislation would drawdown from the SPR crude that is easier to refine and subsequently replace it with crude that is harder to refine.

RSC Bonus Fact: The average price paid for oil in the SPR is \$28.42 per barrel.
<http://www.fossil.energy.gov/programs/reserves/spr/spr-facts.html>

Committee Action: H.R. 6578 was introduced on July 23, 2008, and referred to the Energy & Commerce Committee, which took no subsequent official action on it.

Possible Conservative Concerns: Some conservatives may have the following concerns:

- **Improper Use of SPR for Pricing Purposes.** The Strategic Petroleum Reserve is, as its name conveys, a tool of national security policy. The SPR was never intended to be a political, market-tampering, price-adjusting tool. The SPR does not exist so that its oil would be released in order to bring prices down during election years.
- **Increases the Potential Harm of an Oil Supply Shock.** The less we have in the SPR, and the more willing we are to use the SPR for non-strategic reasons, the more likely it would be that the U.S. could be harmed by an oil supply shock, and the stronger the signal would be to unscrupulous governments in Iran, Venezuela, Nigeria, and elsewhere that the U.S. is vulnerable.
- **Replaces Light Crude with Heavy Crude.** This bill would drawdown from the SPR crude that is easier to refine and subsequently replace it with crude that is harder to refine. In the event of an oil supply shock, the heavy grade crude in the SPR, if released, would take longer (and thus be more costly) to refine, delaying the crisis-mitigating effects of the SPR.
- **Not a Long-Term Solution.** Releasing 70 million barrels from the SPR is a distinctly short-term solution, which may offer feel-good relief for a short period, but won't solve

the longer-term, systemic supply and refining problems necessary to address gasoline prices beyond a few weeks from now.

- **Could Easily Be Offset by OPEC.** If we *were* to sell 70 million barrels from the SPR, we would have no way of stopping OPEC from simultaneously dropping production by an equivalent—or larger—amount, offsetting any supposed price effects that an SPR drawdown would have.
- **Diverts Attention from Real Solutions.** This legislation diverts attention away from legislation that would offer long-term, substantial solutions to the artificially restricted supply of American energy, such as lifting the moratoria on oil shale and most Outer Continental Shelf leasing.

Administration Position: Although a Statement of Administration Policy (SAP) was not available at press time, reports indicate that the Administration will likely issue a veto threat.

Cost to Taxpayers: A CBO score was not available at press time. Though the drawdown would yield revenues for the federal government, a subsequent replacement of such oil could be more costly than the revenues received, depending on the price of oil.

Does the Bill Expand the Size and Scope of the Federal Government?: If this legislation were enacted, it would be the first time that the federal government used its oil reserves to try to manipulate prices.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: Though the bill contains no earmarks, and there's no accompanying committee report, the earmarks rule (House Rule XXI, Clause 9(a)) does not apply, by definition, to legislation considered under suspension of the rules.

Constitutional Authority: A committee report citing constitutional authority is unavailable.

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