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6 DOE MODERNIZATION: LEGISLATION TO AUTHORIZE

7 A PILOT PROJECT TO COMMERCIALIZE THE

8 STRATEGIC PETROLEUM RESERVE

9 TUESDAY, JULY 24, 2018

10 House of Representatives

11 Subcommittee on Energy

12 Committee on Energy and Commerce

13 Washington, D.C.

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17 The subcommittee met, pursuant to call, at 10:15 a.m.,
18 in Room 2322 Rayburn House Office Building, Hon. Fred Upton
19 [chairman of the subcommittee] presiding.

20 Members present: Representatives Upton, Olson, Barton,
21 Shimkus, Latta, McKinley, Kinzinger, Johnson, Bucshon,
22 Flores, Hudson, Walberg, Duncan, Walden (ex officio), Rush,
23 McNerney, Peters, Green, Doyle, Welch, Tonko, Loeb sack,

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24 Kennedy, and Pallone (ex officio).

25 Staff present: Samantha Bopp, Staff Assistant; Kelly
26 Collins, Legislative Clerk, Energy/Environment; Jerry Couri,
27 Chief Environmental Advisor; Wyatt Ellertson, Professional
28 Staff, Energy/Environment; Margaret Tucker Fogarty, Staff
29 Assistant; Jordan Haverly, Policy Coordinator, Environment;
30 Mary Martin, Chief Counsel, Energy/Environment; Sarah
31 Matthews, Press Secretary, Energy & Environment; Drew
32 McDowell, Executive Assistant; Brandon Mooney, Deputy Chief
33 Counsel, Energy; Brannon Rains, Staff Assistant; Mark Ratner,
34 Policy Coordinator; Peter Spencer, Professional Staff Member,
35 Energy; Austin Stonebraker, Press Assistant; Madeline Vey,
36 Policy Coordinator, Digital Commerce and Consumer Protection;
37 Hamlin Wade, Special Advisor, External Affairs; Everett
38 Winnick, Director of Information Technology; Andy Zach,
39 Senior Professional Staff Member, Environment; Tiffany
40 Guarascio, Minority Deputy Staff Director and Chief Health
41 Advisor; Rick Kessler, Minority Senior Advisor and Staff
42 Director, Energy and Environment; John Marshall, Minority
43 Policy Coordinator; Alexander Ratner, Minority Policy
44 Analyst; Tuley Wright, Minority Energy and Environment Policy
45 Advisor; and C.J. Young, Minority Press Secretary.

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46 Mr. Upton. I know there is a couple different
47 subcommittee meetings today, but good morning.

48 Good morning. Welcome to the Energy Subcommittee for a
49 legislative hearing on a discussion draft that authorizes DOE
50 to conduct a pilot program to lease spare capacity in the
51 Strategic Petroleum Reserve.

52 I want to thank Vice Chairman Barton and Ranking Member
53 Rush for partnering on this draft as we continue our work to
54 modernize the Department of Energy.

55 The SPRO is the world's largest emergency stockpile of
56 crude in the world. More than 40 years ago, Congress
57 authorized the creation of the SPRO in response to the Arab
58 oil embargo to mitigate the threat of an energy supply
59 disruption.

60 Back then, our domestic production was in the decline,
61 energy costs were rising, and we were becoming increasingly
62 reliant on imports.

63 The oil embargo exposed our vulnerabilities and panic
64 quickly spread. Some of us will remember those long lines at
65 the gas pump for sure.

66 So let's go to today. The U.S. is, arguably, more
67 energy secure now than ever before. We are the number one
68 world producer of oil and gas and our imports have declined

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69 by about 70 percent since peaking in 2005.

70 With the surge of domestic production, our private
71 stocks of crude oil are at record levels, our pipelines are
72 full, and our refineries are operating at near peak capacity.

73 So I want to thank our witnesses on both panels for
74 appearing before us today to provide their views on this
75 legislation. I want to thank Vice Chair Barton and Ranking
76 Member Rush for their work on this important piece of
77 legislation.

78 I look forward to working with both of them and all
79 members of the subcommittee as we move this bill, hopefully,
80 to the House floor in the coming months.

81 And I now yield to the ranking member of the
82 subcommittee, Mr. Rush, for an opening statement.

83 [The prepared statement of Mr. Upton follows:]

84

85 *****INSERT 1*****

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86 Mr. Rush. I want to thank you, Mr. Chairman, for
87 holding this important hearing this morning examining
88 legislation to authorize a pilot project to commercialize
89 SPRO.

90 As you know, Mr. Chairman, subcommittee staff from the
91 minority and the majority side worked together on this
92 bipartisan bill and I am pleased to co-sponsor this
93 legislation with my good friend and colleague, Mr. Barton of
94 Texas.

95 Mr. Chairman, since the inception of the SPRO, this was,
96 as you indicated, established as a result of the oil
97 shortages of the 1970. The energy portfolio of the United
98 States has changed dramatically.

99 In fact, the U.S. is expected to go from a heavy
100 importer of foreign oil to become the global leader in oil
101 exports by as early as next year, according to the IEA.

102 As a result of these shifting dynamics, Mr. Chairman, it
103 is important for policy makers including members of this
104 subcommittee to examine important questions including if
105 there is still a need for the SPRO. If so, how large should
106 it be and how should it be continued.

107 It is my hope, Mr. Chairman, that the pilot program
108 outlined in this bill will help inform our decision regarding

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109 the SPRO -- regarding the feasibility of leasing all or part
110 of the SPRO to the private sector or to foreign governments
111 even -- those that do not pose a national security risk.

112 As we will discuss today, congressionally-mandated sales
113 of SPRO oil has provided an opportunity to potentially lease
114 the subsequent unused space to private companies and/or
115 foreign governments as a way to maximize taxpayers' return on
116 investment.

117 Mr. Chairman, I am also pleased that we have with us
118 today representatives from both the Department of Energy and
119 the GAO, among other witnesses, as both agencies have issued
120 reports to help guide our decision making on matters
121 regarding the SPRO.

122 Unfortunately, Mr. Chairman, there appears to be some
123 discretion between the two agencies over the final
124 recommendations that GAO made in its May report entitled
125 "Strategic Petroleum Reserve: DOE Needs to Strengthen Its
126 Approach to Planning the Future of the Emergency Stockpile."

127 First, Mr. Chairman, DOE appears to concur with the
128 GAO's recommendation to supplement its 2016 review by
129 conducting additional analysis regarding the objective and
130 purpose of the SPRO, taking into account additional factors
131 such as market projections and private sector response.

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132 DOE also agreed with the GAO's recommendation to
133 periodically reexamine the size of the SPRO with analysis
134 looking at the cost and benefits of the SPRO for a variety of
135 different sizes.

136 DOE also appears to concur with the GAO's findings as
137 the agency considers options for the long-term continuation
138 of the SPRO after the impact of congressionally-mandated
139 sales of SPRO oil are taken into account.

140 Mr. Upton. That's not my wife either.

141 [Laughter.]

142 Mr. Rush. Maybe it's my newly -- my new wife.

143 Mr. Upton. Your new wife. Yes, sir.

144 [Laughter.]

145 Mr. Upton. Better answer it.

146 Mr. Rush. Yes.

147 Mr. Upton. You want to keep being married another 60
148 years.

149 Mr. Rush. All right, Mr. Chairman.

150 Hold on, dear.

151 [Laughter.]

152 Based on the testimony, it appears that some of these
153 recommendations will be included as a part of GAO's small
154 post-sale configuration study expected to be completed in

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155 October of this year.

156 Mr. Chairman, the largest area of disagreement appears
157 to be over GAO's recommendation that DOE -- Department of
158 Energy -- conduct a cost benefit analysis of establishing
159 regional product reserves around the country -- around the
160 country at areas that have been identified as vulnerable to
161 fuel supply disruption.

162 Mr. Chairman, I hope that we can get to the bottom of
163 this and I look forward to the testimony provided by our
164 witnesses today.

165 And finally, I want to tell our witnesses that we
166 appreciate them appearing before us today.

167 Thank you, Mr. Chairman. I yield back.

168 Mr. Upton. The gentleman yields back.

169 The chair will recognize the chairman of the full
170 committee from the good state of Oregon, Mr. Walden, for an
171 opening statement.

172 The Chairman. Thank you, Mr. Chairman.

173 You know, over the course of the past year, the Energy
174 and Commerce Committee has been hard at work identifying
175 what's necessary to modernize the Department of Energy's
176 national and energy security functions.

177 The urgency of our focus has been driven by domestic and

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178 international challenges that will be confronting the nation
179 in the decades ahead. These challenges, which range from
180 maintaining our nuclear security to protecting the reliable
181 supply and delivery of energy, require a Department of Energy
182 that has appropriate organization, management focus, and
183 authorities to succeed in its missions.

184 In recent months, the committee has moved legislation
185 that will establish enduring leadership within the DOE for
186 addressing all energy emergencies, including cybersecurity
187 threats.

188 It has moved legislation that will ensure there is
189 sufficient coordination for secure and reliable delivery of
190 fuels we rely upon for our energy needs, including bulk
191 electric power.

192 And just over the past few weeks, we moved legislation
193 that will strengthen DOE's support for next-generation
194 nuclear energy.

195 We've also moved reforms that streamline DOE's
196 cumbersome regulatory approval process for foreign nuclear
197 commerce, which has inhibited American businesses from
198 competing effectively in global nuclear energy markets.

199 So with today's draft legislation that Vice Chairman
200 Barton and Ranking Member Rush have put together offers a

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201 similar forward-looking path -- this one, toward ensuring the
202 nation's Strategic Petroleum Reserve, managed by DOE, will be
203 more capable of responding to oil supply emergencies for
204 decades to come.

205 Congress, under this committee's leadership, established
206 the SPRO in the wake of the 1973-1974 Arab oil embargo. That
207 incident and the gasoline shortages and price spikes of
208 ensuing years really underscored the growing vulnerability of
209 the United States to international oil supply shocks,
210 especially as reliance on imported oil was rapidly
211 increasing.

212 Well, times have changed, of course, and dramatically.
213 The resurgence in American oil and gas production over the
214 past decade has placed the United States into a dominant role
215 when it comes to global oil and gas supplies and has begun to
216 shift how we should view our SPRO assets.

217 While the role of the SPRO may be shifting, it remains
218 important for energy security. It will continue to help us
219 meet our treaty-level obligations to international partners
220 in the event of major supply disruptions.

221 It will also help maintain our international energy
222 diplomacy, inhibiting adversaries from attempting to use oil
223 as an economic weapon, which ultimately benefits our own and

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224 our allies' energy security.

225 Yet, we know that SPRO facilities require considerable
226 upgrades to be responsive when called upon, and as Congress
227 has mandated sales of some 290 million barrels, there is risk
228 that without serious reforms much of the reserves' capacity
229 to serve as a strategic stockpile will degrade further as
230 those stocks decline.

231 So against this backdrop arrives the draft legislation,
232 which offers an innovative way to accelerate reforms to the
233 SPRO by leasing underutilized space created as the reserve is
234 drawn down over the next decade.

235 A successful leasing program would attract investment
236 into improving facilities' operations that would be
237 responsive to commercial needs.

238 This, in turn, would enable more responsive use of
239 federal oil stocks during those emergencies and by preserving
240 the existing capacity of the reserve's caverns, the pilot
241 program also ensures this asset will remain available for
242 DOE's security missions well into the future.

243 So I appreciate the testimony of those who are
244 testifying today and we will continue to work on this
245 legislation. I don't know if anybody else wants the balance
246 of my time.

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247 But if not, I will yield back.

248 [The prepared statement of Chairman Walden follows:]

249

250 *****INSERT 2*****

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251 Mr. Upton. The gentleman yields back.

252 The chair would recognize the ranking member of the full
253 committee, Mr. Pallone, for an opening statement.

254 Mr. Pallone. Thank you, Mr. Chairman.

255 Today, we will be discussing bipartisan draft
256 legislation on the future of the Strategic Petroleum Reserve.
257 In December 2016, then Chairman Upton and I wrote the
258 Government Accountability Office requesting that GAO review
259 the Strategic Petroleum Reserve as it is currently
260 configured.

261 We asked whether there might be more cost-effective
262 options for protecting against supply shocks and for meeting
263 our international obligations.

264 Most other countries have used contracts with private
265 companies to address these matters. So it's fair to ask
266 whether there might be more efficient and effective ways for
267 us to address our energy security needs in this area.

268 There were a number of reasons why I thought this
269 request of GAO was particularly important in 2016. First,
270 former Energy Secretary Moniz had laid out one vision for
271 modernization of the SPR in the Quadrennial Energy Review
272 that the Obama administration released in 2015.

273 As part of that vision, Secretary Moniz suggested the

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274 establishment of more regional refined product reserves, like
275 the Northeast home heating oil and gasoline supply reserves.

276 Second, at the end of 2015, Congress lifted the 40-year-
277 old ban on crude oil exports and this was done at a time when
278 we were seeing a radical alteration of the transportation
279 fuels landscape.

280 Supply was increasing, demand was decreasing, and we
281 were seeing a rise in electric vehicles.

282 Third, beginning in 2015, Congress had turned to the SPR
283 repeatedly as an offset for deficits, highways, and other
284 items. In fact, it has been used far more in recent years
285 for those purposes than for energy security.

286 And recently, the Trump administration has even been
287 sending signals that it's seriously considering releasing oil
288 from the reserve for the express purpose of lowering gas
289 prices, in my opinion to help Republicans heading into the
290 midterm elections.

291 When you get to the point where an administration is
292 publicly discussing using the SPR for blatantly political
293 purposes, then it is certainly a good time to discuss the
294 future of the reserve.

295 And this discussion is also timely now since we are
296 already requiring the sale of so much oil for nonenergy

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297 reasons, which will free up a great deal of physical space in
298 the reserve.

299 We need to consider ways to ensure taxpayers continue to
300 receive value for the salt dome storage caverns and
301 associated facilities that comprise the crude reserve if they
302 are not being used to store oil.

303 The draft legislation that Vice Chairman Barton and
304 Ranking Member Rush are championing is an important first
305 step in realizing that goal. The draft bill would facilitate
306 the leasing of unused storage space in the reserve while
307 attempting to ensure that government and taxpayers benefit
308 from those leases, and that's important no matter what the
309 future has in store.

310 If we elect to keep the SPR in its current form, the
311 Energy Department will need to repair and upgrade facilities
312 to keep them useful and if we elect to create regional
313 reserves either in addition to or in place of the SPR, we
314 will still need to fund those regional reserves, and this
315 bill will help bring in the revenue we need to do that.

316 There are still questions that need to be answered about
317 this proposal. I want to make sure that the taxpayers see
318 meaningful return on the investment that we made in the SPR
319 and I want to ensure that the government isn't left holding

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320 the bag for environmental liability costs while private
321 industry gets all the benefits of the leasing arrangement.

322 So as long as we can get assurances on these two key
323 points, I think moving forward with this pilot project makes
324 a lot of sense.

325 And unless someone else wants the time, I'll yield back,
326 Mr. Chairman.

327 Mr. Upton. The gentleman yields back. Thank you.

328 We are joined, again, by two panels. We will start with
329 Steven Winberg, assistant secretary of fossil energy from the
330 Department of Energy. We welcome you here.

331 We appreciate you submitting your testimony in advance
332 and if you wouldn't mind taking no more than five minutes to
333 summarize that, at which point we will go into questions,
334 that would be terrific.

335 The time is yours. Thank you.

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336 STATEMENT OF STEVEN WINBERG, ASSISTANT SECRETARY OF FOSSIL
337 ENERGY, U.S. DEPARTMENT OF ENERGY

338

339 Mr. Winberg. Thank you, Chairman Upton, Ranking Member
340 Rush, and distinguished members of this committee. It's my
341 pleasure to appear before you to discuss the Department of
342 Energy's Strategic Petroleum Reserve and the related use of
343 underutilized SPRO facilities resulting from congressionally-
344 legislated crude oil sales.

345 The mission of the SPRO, as has been discussed, is to
346 protect the United States' economy from severe petroleum
347 supply interruptions and to carry out U.S. obligations under
348 the international energy program.

349 As a member of the International Energy Agency, the
350 United States has two primary objectives. First, as a net
351 importer, the United States must maintain crude oil and/or
352 refined product inventories whether held by industry or
353 government equal to at least 90 days of net petroleum
354 imports. As of June 30th of this year, the United States
355 held about twice that amount.

356 Second, the United States must be able to contribute a
357 proportionate share of an IEA collective action response
358 based on its share of IEA oil consumption, which is currently

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359 at 41.4 percent.

360 The U.S. government relies on use of SPRO to meet this
361 requirement, although commercial stocks may also contribute,
362 albeit voluntarily.

363 In the event of an international oil supply disruption
364 large enough for the president to authorize the release of
365 the SPRO, U.S. crude oil production alone would not be able
366 to ramp up quickly enough to make up for the lost barrels in
367 a crisis.

368 The SPRO can be ready to deliver crude oil within 13
369 days of a presidential finding while domestic production
370 would take months to substantially expand.

371 Turning to the proposed legislation, it is expected that
372 the SPRO will have approximately 300 million barrels of
373 unused storage capacity by the end of fiscal year 2027 or,
374 roughly, 45 percent of the current design capacity.

375 To that end, DOE is currently conducting the SPRO post-
376 sale configuration study that will recommend the
377 configuration of the SPRO post-2027.

378 This study should be completed within the next six
379 months and understanding the best configuration for the SPRO
380 will guide us as we continue to sell barrels over the next
381 several years.

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382 It will also guide us in identifying the SPRO storage
383 caverns or related facilities likely to become underutilized
384 or operationally inefficient, therefore, informing possible
385 decisions concerning site decommissioning.

386 Further, determining the optimum configuration for the
387 SPRO to meet domestic needs will be critical in developing
388 and executing this proposed pilot program.

389 The department is supportive of maximizing the value of
390 this taxpayer-funded asset and there are a number of issues
391 that need to be considered related to the configuration of
392 the SPRO post-2027.

393 Therefore, we believe it is premature to comment on the
394 operational feasibility of commercially leasing underutilized
395 storage. But I can discuss with you some of the challenges.

396 Further, it is important for both Congress and the
397 department to consider the impact of using government
398 facilities to compete with commercially available petroleum
399 storage capacity.

400 Finally, we need to review the logistical and
401 infrastructure challenges associated with the likely
402 commercial requirement for increased inflow and outflow
403 activities.

404 Accommodating this requirement may require large up-

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405 front capital expenditures to enable commercial leasing.

406 I would also like to take this opportunity to discuss
407 the recently released GAO report titled "Strategic Petroleum
408 Reserve." I would like to focus on the one recommendation
409 the department did not concur with. Specifically, we did not
410 concur with the recommendation to conduct or complete studies
411 on regional refined product reserves.

412 It's important to understand that while hurricanes and
413 other natural disasters may create severe short-term
414 logistical constraints for gasoline supplies that therefore
415 impact gasoline prices, these constraints and price increases
416 are quickly overcome when a hurricane passes.

417 This was evidenced by Hurricane Irma in 2017. Even if
418 more gasoline was available in Florida during Hurricane Irma,
419 there would not have been enough trucks or other
420 transportation infrastructure to get the supplies to the
421 retail gasoline stations where they were needed due to,
422 first, increased evacuation traffic and then, later, flooded
423 roads.

424 So given the cost of above-ground gasoline storage, it
425 would be inappropriate to use taxpayer funds to conduct any
426 additional studies on the use of federally-owned storage of
427 refined petroleum products.

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428 While there is certainly more information about the SPRO
429 that I could discuss, I will refer the committee to my
430 written testimony submitted to the record.

431 Mr. Chairman and members of the committee, this
432 completes my prepared statement and I am happy to answer any
433 questions.

434 Thank you.

435 [The prepared statement of Mr. Winberg follows:]

436 *****INSERT 3*****

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437 Mr. Upton. Well, thank you very much for coming up this
438 morning. I have a couple of questions.

439 My first couple relate to the GAO study that I know that
440 you're familiar with. It was published in May, two months
441 ago.

442 On Page 27, it talks about the DOE could close at least
443 one SPRO site based on the analysis by CBO of projected
444 excess storage capacity.

445 For example, if DOE were to close the smallest SPRO site
446 -- Bayou Choctaw -- the agency could also explore selling the
447 connected pipeline and marine terminal, which is currently
448 being leased to a private company.

449 The DOE could consider leasing excess storage capacity
450 to other countries so that they could store oil at SPRO. DOE
451 has not entered into any such leases with other countries.
452 It has not considered such leases because, according to DOE,
453 the SPRO has historically lacked capacity to store additional
454 oil.

455 DOE has not proposed any of these options or explored
456 the revenue the agency could generate by selling or leasing
457 these assets. According to DOE officials, the agency would
458 examine the feasibility of such options in the ongoing SPRO
459 pool sale configuration study.

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460 Does that sound like a potential that DOE would support?

461 Mr. Winberg. Yes. Yes, we would. The first
462 requirement we have under SPRO is to make sure that we are
463 meeting our domestic requirements as well as our IEA
464 requirements.

465 And so, based on the math and reducing the SPRO by some
466 300 million barrels, I think it's quite possible that we may
467 end up deciding we need to -- we can close one of the sites.
468 Which site?

469 We don't know yet, and that's the purpose of the SPRO
470 post-sale configuration study. Completing that study they
471 then will inform us on which caverns we need to keep open,
472 which facilities we need to keep open, so that we can meet
473 those requirements.

474 Not all caverns are alike, and so various of our caverns
475 can discharge oil at faster rates. And so we need to do that
476 study so that we clearly understand what our options are and
477 then also, sir, our options with respect to using these
478 facilities in a commercial nature.

479 Mr. Upton. Now, as you know, we have the father of --
480 the author of the EPCA bill -- Mr. Barton -- down at the end
481 of the dais here.

482 Officials said that under EPCA -- the Energy Policy and

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483 Conservation Act -- it gave DOE authority to lease
484 underutilized storage to other countries but not to the
485 private sector.

486 DOE doesn't currently have the authority to pursue that,
487 according to the agency officials. What is your -- what is
488 the department's view on opening that up -- on making that
489 change to allow the DOE the authority to sell to the private
490 sector as well? Are they supportive of that? Would they --

491 Mr. Winberg. Yes. Yes, we are supportive. But if I
492 might, there are some technical challenges with doing that.
493 So let me start off with other IEA member companies that also
494 have a reserve requirement.

495 That would be generally for long-term storage. We
496 wouldn't expect to be moving that product in and out of the
497 caverns.

498 In a commercial situation, that may not be the case and
499 the commercial suppliers of oil use the storage and then
500 discharge and then want to inject and discharge.

501 So there is a cycling mechanism, and the challenge with
502 this particular geography or geology is that these were soft
503 caverns and the way we discharge oil out of these caverns is
504 we inject fresh water and that starts to erode the walls of
505 the cavern in the lower part of the cavern.

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506 And so if you do that numerous times, you may affect the
507 integrity of the salt cavern.

508 So what we would need to do to go to a commercial
509 operation where they -- we are going to inject and discharge
510 on a very regular basis we would have to go with what we call
511 a brine drive system, meaning we would use saturated brine
512 water and we'd have to store that and then inject that down
513 into the caverns so that we weren't dissolving the walls of
514 the cavern, and we have not yet come up with a cost for doing
515 that.

516 But we know that it is not going to be inexpensive and
517 that's part of the post-sale configuration studies to begin
518 to look at those costs.

519 Mr. Upton. Great. Thank you. My time has expired.

520 Mr. Rush.

521 Mr. Rush. Assistant Secretary Winberg, will the DOE's
522 SPRO post-sale configuration study, which will be out in --
523 released in October, examine issues that would help to
524 determine a future optimal size of the SPRO?

525 Will that study make recommendations regarding
526 opportunity to release SPRO storage space to the private
527 sector or to other countries that are now a part of the IEA's
528 collective action? And if not, when can we expect

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529 information from DOE on those specific topics of interest?

530 Mr. Winberg. The post-sale configuration study, sir,
531 will indeed address the optimal size for the SPRO to meet --
532 again, to meet U.S. needs and also our IEA requirements.

533 It will help inform us on what caverns we might be able
534 to use for leasing purposes. As I mentioned earlier, if we
535 are going to lease those caverns to other IEA member
536 countries, it's considerably easier in terms of the mechanics
537 of utilizing that storage.

538 The post-configuration study will not be able to give us
539 complete guidance on what we might be able to do in terms of
540 leasing to the commercial sector. That's going to take some
541 more work beyond the configuration study.

542 And what I would propose we could and should do for the
543 commercial market is to send out a request for information --
544 an RFI -- and we'd be looking for two, maybe three, basic
545 bits of information: number one, does the commercial
546 marketplace value this asset; number two, in what manner
547 would they like to use the asset, meaning would they want to
548 inject oil and then extract oil on a very frequent basis
549 because then that will help inform us on what upgrades we
550 need to make; and then number three, how does the private
551 sector view the federal government stepping into oil storage

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552 leasing business, which has been the domain of the private
553 sector for many, many years.

554 And so those are the three pieces of information that we
555 would want to glean from this RFI. With that information, I
556 think that would help inform us on what type of a leasing
557 program we would want to develop, whether we would want to
558 have the entity leasing the facility to make the investment
559 necessary so that they can inject and extract or whether we
560 make that investment, which would take appropriations, and
561 then factor that into the cost of the lease.

562 So a lot of moving parts there.

563 Mr. Rush. All right. I am going to move on to another
564 area.

565 Can you briefly discuss the disagreement between GAO and
566 DOE regarding the recommendation that the department conduct
567 a cost-benefit analysis for establishing regional product
568 reserves in areas around the country that may be vulnerable
569 to fuel supply disruptions?

570 Why does DOE disagree with this recommendation and is
571 this disagreement only due to funding issues?

572 Mr. Winberg. It's in part due to the cost but it's in
573 part due to the viability of petroleum -- refined petroleum
574 reserves -- gasoline storage.

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575 So let me start with the logistics, and I talked about
576 this in my testimony a little bit. Having regional or even
577 state gasoline storage reserves above ground doesn't
578 necessarily solve the problem because you need to get that
579 stored gasoline to the retail outlets -- the gasoline
580 stations.

581 The problem is when you're in an evacuation situation
582 along the coast -- Florida, I think, is probably a good
583 example of what happened during the Hurricane Irma -- you
584 couldn't get the gasoline from the storage to the retail
585 outlets because the roads were being used for evacuation.

586 Right after the hurricane passed through then the roads
587 were flooded and so having that storage wouldn't have done
588 Florida much good at all -- perhaps none at all.

589 And so we'd be incurring quite a cost in order to
590 maintain regional or state gas reserves around the country.
591 We spend about somewhere between \$10 and \$30 million per year
592 on the Northeast gasoline supply reserve.

593 It currently has about a million barrels of gasoline.
594 And so multiply that by whatever number a regional refined
595 petroleum facilities we might contemplate.

596 The costs get pretty expensive pretty quickly and we may
597 not be able to use it because of the logistics of getting it
598 to the retail stations.

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599 Mr. Upton. Thank you. The gentleman yields back.

600 Mr. Barton.

601 Mr. Barton. Thank you, Mr. Chairman and Ranking Member
602 Rush for scheduling this hearing. I'd like to make a few
603 comments and then I have a few questions.

604 First, I want to thank Congressman Rush for working with
605 me as one of the two lead bipartisan sponsors. Legislation,
606 I think, always is better if it is bipartisan and certainly
607 we, on the majority side, want to make every effort to make
608 this bipartisan.

609 I was very heartened by the opening comments of Mr. Rush
610 and Mr. Pallone. I think -- I think we have got a chance to
611 help the country if this draft becomes, in fact, a bill and
612 is passed.

613 It doesn't change the basic mission statement. It
614 doesn't change the authorized level of the Strategic
615 Petroleum Reserve. Doesn't change the presidential
616 authority.

617 What it does do is add to the mission statement. It
618 gives the secretary of energy the authority so long as it
619 doesn't impact the basic existing mission statement the
620 ability to lease and utilize underutilized capacity of the
621 existing SPR to the private sector for storage and,
622 hopefully, utilization of crude oil.

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623 I think that's an important point -- that we are not --
624 we are not trying to change the basic statement that was --
625 became law in the 1970s. We are just trying to adopt the SPR
626 to the modern situation.

627 A couple of questions for our friend from DOE -- what is
628 the authorized capacity currently of the SPR in terms of
629 millions of barrels?

630 Mr. Winberg. The design capacity is 712 million
631 barrels. In 2018 right now we have 660 million barrels and
632 in 2027 we will be down to 405.

633 Mr. Barton. What did Congress authorize the capacity to
634 go up to? I thought we were about 900 million barrels. Is
635 that not true?

636 Well, I can find out. I just thought you might know.

637 Mr. Winberg. I'll get back to you on that.

638 Mr. Barton. Okay. Whatever the authorized capacity is,
639 if I understand you correctly, the existing physical capacity
640 is a little over 700 million barrels. Is that correct?

641 Mr. Winberg. Yes, sir.

642 Mr. Barton. And of that, how much oil is actually
643 stored right now?

644 Mr. Winberg. We have 660 million barrels stored right
645 now.

646 Mr. Barton. Okay. So not -- we are not quite at 100

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647 percent of existing physical capacity?

648 Mr. Winberg. That's correct.

649 Mr. Barton. Okay.

650 If this draft legislation becomes law, whatever the
651 authorized capacity is -- and let's assume that it is 900
652 million because I think that's right -- under this pilot
653 program would it authorize the secretary of energy if it
654 meets all the other requirements under the draft legislation
655 to actually add capacity to the SPR so long as it doesn't go
656 above the authorized level?

657 Mr. Winberg. In order to add capacity above the 712, it
658 would take some additional capital investment in the facility
659 to get --

660 Mr. Barton. But there is nothing in the law that would
661 prevent going above what's physically available today. Is
662 that not correct?

663 Mr. Winberg. I believe that's correct.

664 Mr. Barton. Okay. I have one more question. I think -
665 - I think I'll yield back.

666 One final comment -- we don't claim -- Mr. Rush and I --
667 that this draft is perfect. If we go through the hearing and
668 there are things that we need to change, I think I speak for
669 everybody on the majority side that we are very open.

670 But I also think I speak for the majority and the

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671 minority that we hope that this is something that can move
672 reasonably expeditiously and that means actually end up in a
673 bill the president signs and this Congress.

674 And with that, Mr. Chairman, thank you for your
675 leadership and Mr. Rush's and Mr. Pallone's, and I yield
676 back.

677 Mr. Upton. The chair would just say that I am delighted
678 that the two of you are working on this. It's something that
679 needs to be done and we look forward to getting this to the
680 president's desk before the year is out, if we can.

681 Mr. Pallone is recognized for an opening statement.

682 Mr. Pallone. Thank you, Mr. Chairman.

683 Mr. Secretary, the idea of establishing regional refined
684 product reserves came out of the first Quadrennial Energy
685 Review and was strongly supported by former Secretary Moniz.

686 And now GAO is also saying we need to look at regional
687 reserves, particularly in the Southeast and the West and I,
688 too, think that regional refined product reserves needs to be
689 a part of any SPR modernization effort.

690 Now, you can correct me if I am wrong. But you
691 mentioned, I believe, that the Trump administration seems
692 hostile to the concept. In fact, President Trump had
693 proposed doing away with the Northeast gasoline supply
694 reserve, which had been created administratively by President

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695 Obama in response to the dangerous shortages that occurred in
696 the wake of Superstorm Sandy, including in my area of New
697 Jersey.

698 And, frankly, I think this administration's attempt to
699 undue the Northeast reserve is reckless and that's why I
700 introduced legislation to establish that reserve in statute.

701 But it seems like everybody but the Trump administration
702 sees the benefit establish regional reserves and particularly
703 one in the Southeast, where states like Florida, Georgia,
704 South and North Carolina are extremely supply constrained,
705 and those states are really vulnerable in the face of an
706 extreme weather event. Yet, this administration and you, I
707 think, said don't want to take any action on that.

708 So can I just ask you, Mr. Assistant Secretary, you said
709 that the price of gasoline I think -- you can correct me -- I
710 think you said that the price of gasoline goes back to normal
711 soon after a storm like Sandy or Irma.

712 What is that based on? I mean, that wasn't true in New
713 Jersey after Sandy. Did I misunderstand you? I thought
714 that's what you said, as one of the reasons why it wasn't
715 necessary to have these regional reserves.

716 Mr. Winberg. The -- the first point, I wouldn't
717 characterize the administration's position as hostile against
718 the gas reserves.

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719 What I talked about before -- what I talked about in my
720 testimony is, A, the cost of these gasoline reserves, and I
721 used --

722 Mr. Pallone. Yes. You said they would cost the
723 government too much and -- I mean, my understanding is I just
724 -- we only have two and a half minutes -- my understanding
725 you said that you were not supportive of it or the
726 administration wasn't because the price of gasoline goes back
727 quickly after a storm like -- you know, like Sandy -- I think
728 you said Irma.

729 And then you also said that the regional reserves would
730 cost the government too much. So that -- I am just asking
731 you what those two things are based upon because I am
732 wondering -- wouldn't the same argument be used against the
733 existing SPR? Why are you saying -- I don't believe it's
734 true that the price goes up quickly right after and I don't
735 believe that this is going to cost the government too much --
736 certainly, less than it costs to maintain the SPR.

737 I am just challenging those two statements. That's all.

738 Mr. Winberg. I can address the pricing issue with
739 respect to Hurricane Irma. The prices came back down to
740 relatively normal levels.

741 I can't speak to every gasoline station around Florida.
742 But as the product moved back into the state and retail

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743 stations were opening back up again, there was competition
744 and prices reflected that.

745 I think that the bigger issue is that if we set up
746 reserves and we have these fairly sizeable storage areas and
747 we can't get the gasoline to the retail outlets because of
748 congested roads due to evacuation and then flooded roads,
749 then it is an expense that's not really serving the public
750 good.

751 Mr. Pallone. But what I was arguing -- see, look, I
752 understand what you're saying in all these cases. But I just
753 would like to know, you know, what that's based on.

754 In other words, my experience in Sandy which,
755 admittedly, is only one hurricane, is that the price -- it
756 does take a while before the price goes back to normal and
757 that I don't know why it would cost more to have these
758 regional reserves, you know, significantly more than it does
759 to maintain the SPR.

760 I mean, I guess you argue maybe that you -- I am not
761 saying we shouldn't have an SPR but I think the costs of the
762 regional ones would actually be less. And it seems like
763 everybody's suggesting that this is a good idea.

764 There is going to be some cost to the government, but
765 I'd just like to know -- you know, if you get back to me,
766 tell me, you know, what's the evidence that the price goes

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767 back quickly?

768 Why are you saying it's going to cost so much and now
769 you're saying that they can't bring it to the -- to the gas
770 stations. That's not my experience.

771 So I just want you to get back to us and -- either now
772 or get back to us and explain what these -- you know, what
773 this is based on because it seems to be contrary to
774 everything I've heard.

775 Mr. Winberg. We will be happy to get back to you with
776 some specific cost numbers an utilization.

777 Mr. Pallone. All right. I'd appreciate it.

778 Thank you, Mr. Chairman.

779 Mr. Upton. Mr. Olson.

780 Mr. Olson. I thank the chair and welcome, Mr. Winberg,
781 and please give your boss, Secretary Rick Perry, my best.
782 It's not very good, but it's my best.

783 Mr. Winberg. I will do so.

784 Mr. Olson. He will know where that comes from.

785 The SPR is important back home in Texas-22 in southeast
786 Texas. You mentioned the status of your modernization
787 program. Could you please talk about the most important
788 steps DOE can take in this next year to continue to improve
789 the readiness of the SPR?

790 Mr. Winberg. Yes, sir, I can. Thank you.

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791 One of the steps that I mentioned already is the post-
792 sale configuration study and then the second one is we have -
793 - we are developing the Life Extension program.

794 We are in the process of pulling that together and the
795 Life Extension program is going to allow us to continue to
796 meet our needs under IEA, number one.

797 And then, number two, the Life Extension program will
798 focus on those assets that we are going to continue to need
799 post-2027. That is the primary role of the Life Extension
800 program.

801 Mr. Olson. The second question, sir -- as you know,
802 Texas oil production is booming. The Permian Basin itself is
803 projected in a few years to produce more oil than every
804 country in the world except for Saudi Arabia.

805 One oil plain in Texas takes over all the world except
806 for one country -- Saudi Arabia. A lot of that crude has to
807 go to export -- go to the Gulf Coast ports -- goes to either
808 Corpus Christi, Houston, Port Arthur, Beaumont -- all those
809 ports -- Brownsville -- goes there for refining and export.

810 If we pass this discussion draft before us, do you think
811 the oil industry will view the SPR sites on the Texas Gulf
812 Coast as a good holding site for their oil and are their
813 needs looking more shorter term than what the SPR is designed
814 for?

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815 Mr. Winberg. The answer to your first question, we are
816 not yet sure how the commercial market is going to view this
817 government asset -- the SPRO and our ability to potentially
818 store oil for the commercial sector.

819 That's part of the RFI -- the request for information
820 that we are going to send out so that we can better
821 understand what the commercial industry needs and wants and
822 whether the SPRO will fulfill that requirement.

823 So when -- as we get that information I'll be happy to
824 meet with the committee or meet with you individually --

825 Mr. Olson. Thank you.

826 Mr. Winberg. -- and give you the results of the study.

827 Mr. Olson. Thank you.

828 My final question -- as we had these SPR drawdowns over
829 and over and over -- June of 2011, 30 million barrels of oil;
830 August of 2012, 1 million barrels of oil; November of 2015,
831 58 million barrels; December 2015, 66 million barrels;
832 January 2017, 8 million barrels -- over and over.

833 I am curious to hear how about the state of the SPR is
834 with all these draw downs. Specifically, how much -- we have
835 a lot of light crude here at home.

836 Are you happy about the balance between light crude and
837 heavy crude in the SPR and the balance between sweet and sour
838 oil? I know there is lots of people concerned especially

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839 about heavier crude with a supply disruption because of this
840 wave of sweet crude and light crude. Any concerns about the
841 SPR's makeup with those issues, sir?

842 Mr. Winberg. Well, we are going to -- I don't have any
843 particular concerns about them. But that is part of the
844 post-sale configuration study to evaluate sweet crude versus
845 sour crude and what percentage we should have of both of
846 those, given the changing dynamics in the -- of oil
847 production here in the United States. But I don't have any
848 particular concerns about them right now.

849 Mr. Olson. My time is about to expire. I yield back.
850 Thank you.

851 Mr. Upton. Mr. McNerney.

852 Mr. McNerney. Well, I thank the chairman for holding
853 the hearing and I thank Mr. Barton for your work on it. I
854 thank the witnesses for your thoughtful answers so far.

855 Similar to the Northeastern gasoline supply reserve,
856 what do you think about establishing a reserve in the West
857 for hurricane preparedness and other sorts of emergencies
858 that we have out there, as opposed to hurricanes, which we
859 won't have? Earthquakes.

860 Mr. Winberg. I think the same issues that we have --
861 our concerns about our ability to develop a surface reserve
862 and then get that product in that surface reserve to the

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863 market where it's needed or --

864 Mr. McNerney. Well, I mean, you don't have a lot of
865 warning for earthquakes so you don't have an evacuation
866 problem.

867 Mr. Winberg. Well --

868 Mr. McNerney. You have some roads disrupted but, I
869 mean, I think it's a better case to be made in the West where
870 we could have those difference sorts of emergencies.

871 Mr. Winberg. That's true. But if we have an immediate
872 earthquake situation, there is some road damage --

873 Mr. McNerney. Right.

874 Mr. Winberg. -- that means that the gasoline can still
875 move in through the normal infrastructure and transportation
876 mechanisms that it would. There may be some that would be
877 cut off, depending on where the earthquake --

878 Mr. McNerney. Right.

879 Mr. Winberg. -- happened and the effect of it and how
880 many roads or rails might be damaged. But, generally, there
881 are multiple routes into an urban area or a suburban area
882 where there is --

883 Mr. McNerney. So we have a pretty good case to be made
884 for establishing those reserves -- the product reserves in
885 the West?

886 Mr. Winberg. I am sorry. Say that again.

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887 Mr. McNerney. We have a pretty good case to be made
888 then for establishing those reserves in the West?

889 Mr. Winberg. Well, I think if you had limited damage to
890 road or railroad infrastructure then you'd have to look at
891 the cost of establishing that reserve and maintaining it and
892 whether it would provide a lot of value in the case of -- in
893 this example of an earthquake situation.

894 Mr. McNerney. Okay. Changing the subject a little bit,
895 what about the challenges with respect to the infrastructure
896 of the existing SPRO facilities?

897 My understanding is that the extraction network
898 infrastructure was aging and not in very good shape. We have
899 the degradation of the caverns when you recycle -- when you
900 put in that water to push out the oil and so on.

901 Can you talk a little bit more about that existing
902 infrastructure?

903 Mr. Winberg. Sure, and I think there is two parts to
904 the infrastructure. One is the subsurface and then the other
905 is the surface.

906 And on our Life Extension program, that we are involved
907 in right now, mostly that is surface infrastructure. So we
908 are talking about pipes, pumps, and motors and that type of
909 infrastructure.

910 And so we have got a program in place to upgrade that

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911 because, as was mentioned earlier, the SPRO has celebrated
912 it's 40-year anniversary last year.

913 The subsurface infrastructure, while we have had a
914 number of withdrawals, the caverns are generally good for
915 about five withdrawals and then refills before you start to
916 see a lot of degradation.

917 And so part of the assessment that we are looking at in
918 the configuration study is the stability of the caverns, how
919 much erosion -- well, it's not erosion. It's really --

920 Mr. McNerney. Well, I mean, five cycles doesn't sound
921 like a lot if we are going to be leasing out space.

922 Mr. Winberg. Well, those are the cycles given -- that's
923 how the -- what the caverns were designed for. If we leased
924 it out under commercial operation, we might see considerably
925 more than that because people store oil and they use it as a
926 hedge.

927 The price goes up, they are going to want to withdraw,
928 and then they are going to want to reinject. So it could
929 happen many, many times, not -- which is our concern about
930 the integrity of the caverns.

931 Mr. McNerney. What happens to the water when you inject
932 water to pressurize release? What happens to that excess
933 water? Does it just get absorbed into the landscape?

934 Mr. Winberg. The water stays down into the -- in the

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935 cavern and if we refill it then we would extract the water.

936 Mr. McNerney. So it's --

937 Mr. Winberg. Then we have to -- we have to treat the
938 water.

939 Mr. McNerney. Is it better to be at 100 percent
940 capacity or is it better to be 90 percent capacity or some
941 lower value?

942 Mr. Winberg. Operationally, it's probably always better
943 to be somewhere in the 90 to 100 percent. But there is a
944 cost associated with being at that capacity level. You're
945 storing oil in a lot of facilities.

946 Mr. McNerney. All right. I thank the chairman. I
947 yield back.

948 Mr. Upton. The gentleman yields back.

949 And before we move to Mr. Shimkus, Mr. Barton will have
950 a brief announcement here.

951 Mr. Barton. I have a point of personal privilege. In
952 the back of the room, my grandchildren -- two of my
953 granddaughters and my two daughters and their significant
954 others are watching the hearing and, in typical millennial
955 fashion, they are sitting on the minority side of the room.

956 [Laughter.]

957 If they would stand up and let us acknowledge their
958 presence.

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959 [Applause.]

960 Mr. Upton. Maybe we will let Mrs. Rush give them a call
961 as well.

962 [Laughter.]

963 Mr. Shimkus.

964 Mr. Shimkus. Thank you, Mr. Chairman.

965 Mr. McNerney's just leaving but I wanted to follow up on
966 some of his comments because they had raised maintenance as
967 an issue and this was going to be my third question. But I
968 am going to bring it up just in the timely manner that he
969 addressed it.

970 The GAO reported that the SPRO had experienced at least
971 five major equipment failures since 2013 including a major
972 pipeline failure that shut down the Big Hill site for five
973 years.

974 Could leasing underlie SPRO capacity help offset the
975 cost of operations and maintenance?

976 Mr. Winberg. Yes, and under two different scenarios.
977 One, we might make the upgrades and then roll that in to the
978 price of the lease or -- but that would require
979 appropriations.

980 Another option, of course, is to have the entity leasing
981 the space to make those upgrades.

982 Mr. Shimkus. Yes. Based on my experience with the

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983 appropriation committees, I wouldn't encourage the first
984 course of action. I would think that maybe in the leasing
985 agreement of upgrades that would be a more straightforward
986 process. But that's me.

987 We also -- it was also talked about a little bit earlier
988 in the question and answers about spare caverns and I think
989 you -- being able to, in essence, lease those out and there
990 was some interest to that.

991 Did I understand that question and answer process?
992 Another member mentioned about excess space in other caverns
993 and the ability to, you know, lease that out to private
994 entities.

995 Mr. Winberg. Yes. Congressman, we have not yet tested
996 the market, if you will, on commercial interest in leasing
997 the space. That would be the subject of the request for
998 information that we will be sending out.

999 Mr. Shimkus. Let me -- let me also talk about there has
1000 been some debate about the refined product reserves that are
1001 established and I think there is a cost to doing this, right?
1002 A financial cost of setting these things up.

1003 Mr. Winberg. Yes.

1004 Mr. Shimkus. Do you know what it is for the East coast
1005 refined product?

1006 Mr. Winberg. Yes. It's -- we spend between \$10 and \$30

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1007 million a year for, roughly, a million barrels of gasoline.

1008 Mr. Shimkus. That's per year?

1009 Mr. Winberg. Yes, sir.

1010 Mr. Shimkus. So I think it's credible for us to have
1011 the debate of a cost benefit analysis. If we are spending
1012 that much millions -- \$25 million a year for 1 million of
1013 refined product versus the timeliness of transportation and
1014 the access, I think that's where the debate is. Everybody
1015 would like to have a refined reserve available next door for
1016 disruption.

1017 In the Midwest, we have tornadoes and things go down and
1018 power goes off. But the question is, is \$25 million for 1
1019 million -- I don't think that makes financial sense.

1020 So let me go to -- I wanted to raise that. The last
1021 thing I want to address is U.S. will become a net energy
1022 exporter by 2022. That's the expectation. Do you agree with
1023 that?

1024 Mr. Winberg. Yes, sir. I do.

1025 Mr. Shimkus. Do you think there is a need for a
1026 strategic petroleum reserve. I mean, I was a big supporter
1027 of this years ago when we were worried about the -- our
1028 enemies around the world shutting off the sea lanes because
1029 we were importing our crude oil.

1030 But if we are a net exporter does that even lend to the

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1031 question of whether we need a SPRO?

1032 Mr. Winberg. I think it's difficult to forecast what
1033 kind of geopolitical challenges we might have --

1034 Mr. Shimkus. Well, if we listen to Olson, Texas is
1035 going to supply the whole world. So I --

1036 Mr. Winberg. But there is also the hurricanes and other
1037 --

1038 Mr. Shimkus. And I would think that more speaks to
1039 pipelines and diversification of a refinery basis and I think
1040 that's occurring as we speak right now, too, with, you know,
1041 North Dakota and some other places where we are having that
1042 occurring.

1043 So those are just questions I pose. It's great to have
1044 you here. We live in, you know, some exciting times.
1045 Whoever thought that we'd be exporting crude oil and
1046 exporting liquefied natural gas, and we all know the benefits
1047 for that just for our balance and our income or the trade
1048 balance but also for our allies who, in some places around
1049 the world, are being held hostage by foreign powers who
1050 really don't like us that much.

1051 So I appreciate it. Send my regards to the department
1052 and with that, Mr. Chairman, I yield back.

1053 Mr. Upton. Mr. Green.

1054 Mr. Green. Thank you, Mr. Chairman. Thank you for

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1055 being here.

1056 You have a couple Texans on the committee, both
1057 Republican and one Democrat. But I have a district in east
1058 Harris County and so the salt domes that are created are
1059 there in Chambers County all the way through southeast Texas.

1060 This Congress and previous Congresses have chosen to
1061 sell oil from the SPRO since 2015. The cumulative sale of
1062 these barrels -- 250 billion barrels -- could occur about
1063 2027. Is that correct?

1064 Mr. Winberg. Yes, sir.

1065 Mr. Green. Okay. And leave us with the expected
1066 inventory of 410 million barrels?

1067 Mr. Winberg. 405.

1068 Mr. Green. 405. Okay. I know we talked about it one
1069 time. Over the years the SPRO had as much as 500 -- I mean,
1070 725 million barrels. Is that correct?

1071 Mr. Winberg. Yes. Well, I think the capacity is 712
1072 million barrels.

1073 Mr. Green. Okay. The -- although the authorization or
1074 the intent was to have a billion barrels?

1075 Mr. Winberg. Yes, I believe that's correct.

1076 Mr. Green. Back when it was created. You know, with
1077 what's happening today in the energy market I can't imagine
1078 us -- are we buying crude oil into the SPRO now?

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1079 Mr. Winberg. No, we are not.

1080 Mr. Green. Okay. And because as a Texan, you want to
1081 buy it at 30 and sell it for 70 and so I would hope we would
1082 not be buying \$70 a barrel oil.

1083 One of the concerns I have is that during the Hurricane
1084 Harvey that was last year, Hurricane Ike that was 2008, even
1085 Katrina, because part of the SPRO goes into southwest
1086 Louisiana, has the storage facilities been damaged because of
1087 these hurricanes?

1088 Mr. Winberg. I think there was some surface damage but
1089 that damage has been repaired and the SPRO is fully capable
1090 of meeting its withdrawal requirements.

1091 Mr. Green. Okay.

1092 When the -- this crude oil is selling from SPRO on the
1093 open market, do you have any idea who's buying it? Is it --
1094 you know, because I have five refineries in east Harris
1095 County that typically uses the heavier crude still, although
1096 they are retooling now because of the lighter sweet coming.

1097 Is it typically local refineries that are buying that or
1098 are they other countries or anything else that you know of --
1099 anyone who sells oil from the SPRO?

1100 Mr. Winberg. We do know who's buying the crude and I
1101 don't have the specifics here with me but I am happy to get
1102 that information to your office with respect to whether it

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1103 was domestic or international purchases.

1104 Mr. Green. You know, at one time, I think people would
1105 be concerned about someone from another country that's not an
1106 ally buying our crude oil.

1107 But since we are exporting crude oil now from everywhere
1108 I can imagine on the Gulf Coast in Texas and Louisiana,
1109 that's probably not a big issue.

1110 Is the -- does U.S. or the DOE SPRO post-sale
1111 configuration study -- has it been completed?

1112 Mr. Winberg. No, sir. It's underway right now. We
1113 expect we will complete it this autumn.

1114 Mr. Green. Okay. The SPRO is a lot of different sites
1115 in the salt dome because some of that salt dome underneath
1116 southeast Texas and Louisiana may have to be qualified or,
1117 you know, for -- how would we expand to get -- if we wanted
1118 to get to a billion barrels, how could we do that? Is it
1119 engineeringly possible?

1120 Mr. Winberg. Yes. Yes, we could develop more storage
1121 capacity. If we ended up selling into the commercial market
1122 and we needed to develop the brine drive system so that we
1123 could plug the caverns and then reinject oil, we would need
1124 some additional caverns for the brine storage system.

1125 Mr. Green. We are currently required to maintain a 90-
1126 day supply of crude oil and, currently, we have a supply of

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1127 about 170 days. Is that correct?

1128 Mr. Winberg. Yes, sir. I think that's correct.

1129 Mr. Green. In DOE's opinion, are the current level of
1130 reserves adequate for future potential disruptions?

1131 Mr. Winberg. Yes, sir.

1132 Mr. Green. Okay. And, again, the market has changed so
1133 much because, literally, just down the road we are seeing a
1134 lot of crude oil produced. Although, again, it's typically
1135 lighter sweet than compared to the heavier crude.

1136 Mr. Chairman, I appreciate you having this hearing on
1137 the oversight. This is kind of in the neighborhood for those
1138 of us in southeast Texas. So we have a big interest in it.

1139 Thank you for being here.

1140 Mr. Winberg. Thank you.

1141 Mr. Upton. Mr. McKinley.

1142 Mr. McKinley. Thank you, Mr. Chairman, and thank you
1143 for the sponsors of this legislation to consider that.

1144 Mr. Winberg, you've -- some of your testimony has just
1145 raised more questions for me as a result. The one was your
1146 testimony -- you talked about the annual cost for this -- the
1147 gasoline reserve we have in the Northeast at about \$25 to \$30
1148 million a year.

1149 But I remember a few years ago we were having that
1150 discussion about this because it was done not by legislation

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1151 but by -- through the administration, that as one of the
1152 discussions we have to replenish that -- that you can't --
1153 gasoline does not have a shelf life very long.

1154 So do you -- is it physically empty and restored? How
1155 do you -- how is the mixture so that we know the age of that
1156 gasoline there?

1157 Mr. Winberg. We do roll the gasoline, Congressman. I
1158 don't know specifically how many turns we do. But I can find
1159 out for you.

1160 Mr. McKinley. I am just curious because if crude is
1161 selling for \$70 a barrel but you're selling refined product
1162 at only \$30 a barrel, something's wrong with the math here.
1163 You must not be emptying it entirely and using it.

1164 So we can have more of a conversation. I am just
1165 curious to see how that's functioning there. Also, you
1166 talked about the five -- perhaps you can cycle about five
1167 uses or draw down about five times out of the salt dome.

1168 But if we go to this process -- this is what I am having
1169 a little concern with -- by leasing it out to other entities
1170 and then you indicated that perhaps they might want to draw
1171 down more often than five.

1172 Do you see a possibility that you will have them posting
1173 bonds or some kind of verifications that they pay for the
1174 repairs to the salt dome if that -- other security so that

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1175 someone with an outside interest could cause us to lose the
1176 integrity of our salt storage?

1177 Mr. Winberg. We believe we have a technical solution
1178 for the problem and that technical solution would be what we
1179 are calling the brine drive system.

1180 So rather than injecting fresh water into the salt
1181 cavern to lift the oil, we would inject a saturated brine
1182 solution.

1183 Mr. McKinley. I heard you -- I'd like to know a little
1184 bit more about that. I heard you talk about some additional
1185 brine that you had put back into that. That was interesting.

1186 How do you verify -- because we got the problem with the
1187 ethane storage hub up in the Appalachian area -- how do you
1188 verify the thickness of the walls of the salt dome in an
1189 existing while it's in operation?

1190 How are you doing that so that you could make a
1191 determination maybe five years it could reach its life? How
1192 do you verify that?

1193 Mr. Winberg. That's a great --

1194 Mr. McKinley. The extent of their degradation.

1195 Mr. Winberg. That's a great question and, Congressman,
1196 I don't know the answer. But I will get back to you and let
1197 you know specifically what testing mechanisms we use to
1198 determine --

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1199 Mr. McKinley. Just one engineer to another engineer. I
1200 am just curious how you're going to do that.

1201 And the last is more about security. I've never really
1202 actually seen a map that showed where our salt domes are
1203 located until today. I didn't want to know where they were.

1204 But if I know now, hostile actors can know where those
1205 salt domes are, and if they are that important to our
1206 national security why would we ever put it on a map where
1207 those things are?

1208 Mr. Winberg. Well, these are pretty large facilities
1209 and so people know where they are. They are very secure --

1210 Mr. McKinley. My point, again -- how secure are they?
1211 If someone got -- we had that -- we lost -- at the Greenbriar
1212 we used to have a bunker there for congressmen to go hide
1213 until someone revealed where it was and then that -- we had
1214 to do away with that.

1215 Now we are revealing all -- where all these are -- our
1216 strategic reserve is -- 600 million barrels of gas or crude
1217 oil. The bad actors know exactly where that is. So if we
1218 had to abandon the Greenbriar what are we doing here?

1219 Mr. Winberg. Well --

1220 Mr. McKinley. How secure is it?

1221 Mr. Winberg. Yes. We have an ongoing security program
1222 and so we are updating it, both physical security as well as

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1223 cybersecurity. You know, we are opening up a new office in
1224 DOE, the CESER, which is going to address the cyber issues.

1225 The physical security issues that --

1226 Mr. McKinley. It's not the cyber. I am talking about
1227 something a bad actor -- I don't -- I don't know that we have
1228 an Iron Dome outside these things. So I am just curious how
1229 we are going to protect them.

1230 Mr. Winberg. Well, they are fenced in. We have guards,
1231 guns, and gates.

1232 Mr. McKinley. I yield back. Thank you.

1233 Mr. Olson. [Presiding.] The gentleman yields back.

1234 The chair notes for the record that the Greenbriar is
1235 doing just fine because this week the Houston Texans started
1236 their practice for the football season at the Greenbriar.

1237 The chair now calls upon Dr. Bucshon for five minutes.

1238 Mr. Bucshon. Thank you, Mr. Chairman.

1239 Mr. Winberg, we spend more than \$200 million per year on
1240 SPRO management and operations, yet most of the equipment is
1241 beyond its serviceable life and there is a growing backlog of
1242 deferred maintenance.

1243 For example, GAO reported that this -- that the SPRO has
1244 experienced at least five major equipment failures since
1245 2013, including a major pipeline failure that shut down the
1246 Big Hill site for five weeks.

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1247 You're talking about changing to a brine-related way to
1248 extract oil. I mean, it seems like we need to catch up on
1249 this maintenance first.

1250 What's been the reason why we are -- there is a backlog
1251 of deferred maintenance and all the equipment is beyond its
1252 serviceable life and is there -- what can we do about it?

1253 Mr. Winberg. I think the backlog is because we didn't
1254 have appropriations sufficient to keep the facility in
1255 optimal operating condition. We now have our --

1256 Mr. Bucshon. Okay. I am just going to interrupt you
1257 there for a second because that's the -- that's the -- I
1258 think that's the answer we get from every federal agency no
1259 matter anytime we ask this question.

1260 But the appropriations -- what specifically -- were
1261 there requested appropriations that didn't get appropriated?
1262 Were there no appropriations or, I mean, there is more --
1263 there is more to it than that, I would imagine.

1264 Mr. Barton. Would the gentleman yield?

1265 Mr. Bucshon. I will yield.

1266 Mr. Barton. I don't want to speak for the Department of
1267 Energy, but the draft legislation allows, without going
1268 through the appropriation process, funds generated by using
1269 this facility for private purposes to be used for maintenance
1270 of the facility. So we have tried to solve that problem in

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1271 the legislation before us.

1272 Mr. Bucshon. Thank you, Mr. Barton, because that -- I
1273 am getting to -- that's going to be my next -- one of my next
1274 questions.

1275 So it sounds like we have -- probably had an
1276 appropriations issue over the years. I get that, and it
1277 seems like we need to address that.

1278 So the question, and is a follow-up to what Mr. Barton
1279 just said, could leasing underutilized space, capacity, help
1280 offset the cost of operations and maintenance?

1281 Mr. Winberg. Yes, I think it could. Again, we need to
1282 test the -- we need to query the market and find out what
1283 value they place on this storage and what they are willing to
1284 pay for it.

1285 Mr. Bucshon. Yes. So potentially this draft
1286 legislation could help us solve what appears to be a long --
1287 probably a long-standing issue with our maintenance and
1288 serviceable life of our equipment being at the end of its
1289 serviceable life if we find more money and put that into
1290 operation and maintenance.

1291 Also, most of the time it sits idle, could some of the
1292 spare caverns -- and I think you went over this and the
1293 answer is yes -- be commercialized in such a way to improve
1294 its overall operational readiness?

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1295 Mr. Winberg. Absolutely. Yes, sir.

1296 Mr. Bucshon. And you described some of that -- I was
1297 interested in the fact that on a commercial basis you'd have
1298 to have more going in and out all the time, right? Couldn't
1299 you -- could you isolate that to the commercial space versus
1300 the noncommercial space?

1301 So you're not talking about the entire -- the entire
1302 reserve being accessed all the time. Were you talking about
1303 a way to cordon off, so to speak, what we would -- what we
1304 could utilize and in that way the caverns wouldn't -- of the
1305 whole reserve wouldn't be at risk.

1306 Mr. Winberg. That's correct. We would -- we would
1307 utilize the brine drive system in those caverns where we were
1308 discharging and refilling on a frequent basis for commercial
1309 purposes.

1310 Also, I spoke earlier about leasing this -- some of the
1311 space to other countries that are members of the IEA activity
1312 and in that case then those countries would not be
1313 withdrawing and injecting on a routine basis, and by having
1314 that capacity our overall costs likely would go down because
1315 we would have more oil stored so you'd spread the cost out
1316 over --

1317 Mr. Bucshon. Right. So we would do that on a build-out
1318 basis or they would pay for it or we'd build out what they

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1319 need or they'd pay for that?

1320 Mr. Winberg. Well, I think we would utilize the excess
1321 capacity we have and if there was a big enough market I think
1322 we could look at building out additional. But we are going
1323 to have 300 million barrels of capacity when we finish the
1324 draw down in 2027.

1325 Mr. Bucshon. Understood.

1326 Thank you, Mr. Chairman. I yield back.

1327 Mr. Olson. Thank you.

1328 Mr. Duncan, five minutes for questions, sir.

1329 Mr. Duncan. Thank you, Mr. Chairman.

1330 You know, there is no doubt that demand for oil is much
1331 greater now than when the SPR was originally developed, and I
1332 wonder is the SPR big enough to have an impact in the case of
1333 a real crisis in the 21st century. Is it big enough?

1334 Mr. Winberg. I think it probably is big enough.

1335 Mr. Duncan. Is it storing enough?

1336 Mr. Winberg. I think it is storing enough right now.

1337 As we move into 2027, we are going to be very close to
1338 meeting our IEA requirements. In fact, we --

1339 Mr. Duncan. Have you all looked at the demand as it --
1340 as it applies in the 21st century here and 2018, right, or --

1341 Mr. Winberg. Yes, we have. But a balancing factor for
1342 that, of course, is that we have much more domestic

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1343 production and that domestic production, while it takes
1344 several months to come online, it's much quicker than it was
1345 before the unconventional oil plays became commercial in the
1346 United States.

1347 So we are down to four or five or six months to get
1348 wells online as opposed to --

1349 Mr. Duncan. Well, let me -- just let me ask you this.
1350 In your opinion, has SPR been used effectively over the past
1351 four decades to respond to oil price volatility?

1352 Mr. Winberg. I believe it has, yes.

1353 Mr. Duncan. Has been used effectively? Okay.

1354 Has it been appropriately used as a tool to balance
1355 supply and demand?

1356 Mr. Winberg. I don't think it's -- that's not its
1357 purpose to balance --

1358 Mr. Duncan. I remember the oil shortage in the 1970s
1359 and since then we really haven't had a true oil shortage. We
1360 have had price volatility, right?

1361 So given the change in landscape, the fact that the
1362 United States is now a net exporter, do you see the SPR being
1363 able to balance the supply and demand or even necessary to
1364 balance the supply and demand when we have an abundant
1365 supply?

1366 Mr. Winberg. Well, the purpose of the SPRO was never to

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1367 balance supply and demand but, rather, its purpose was to be
1368 there in the event that there was a -- more of a crisis
1369 situation rather than short-term supply and demand
1370 imbalances.

1371 And so that was its purpose. That still is its purpose,
1372 and I think where we are right now, even with the draw downs,
1373 given the fact that we have much more domestic production and
1374 that production can come on much quicker, I think that we
1375 have sufficient reserves and sufficient capacity with the
1376 SPRO.

1377 However, getting to an earlier question, we do need to
1378 upgrade it and maintain mostly the surface facilities but
1379 also subsurface facilities to make sure that we can meet the
1380 --

1381 Mr. Duncan. Let me ask your opinion about -- Congress
1382 has sold off some of the SPR in order to cover deficits and
1383 when we have had some of these crisis since I've been in
1384 Congress -- eight years -- it also seems like we always sell
1385 it for a lot less than we paid for it, and that's kind of
1386 opposite of buy low sell high, right?

1387 That's the first thing. Who manages what price point we
1388 purchase or replenish? If you've got a high-value asset that
1389 you paid less for, do you all play the market in that regard
1390 and sell it at a higher price and buy it again at a lower

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1391 price to help the American taxpayer?

1392 Mr. Winberg. When we have a release we do it under an
1393 auction mechanism. So we get the highest price that the
1394 market's willing to pay.

1395 Under some releases, we -- where we have a test sale,
1396 for example, then whoever buys that oil has to replenish that
1397 oil plus an additional amount of oil.

1398 So in that manner, we are paying for the cost of
1399 extracting oil from the facility. But the SPRO and the
1400 operation of the SPRO does not play the market, per se. We
1401 do it through an auction mechanism.

1402 Mr. Duncan. Mr. Chairman, 30 seconds I've got left.

1403 Since I've been in Congress, we have used the SPR as an
1404 opportunity to offset spending with cut-go or whatever, and
1405 that's wrong. This is a strategic petroleum reserve to help
1406 us in the time of a crisis and oil shortage or restriction of
1407 the flow of oil by OPEC like we saw in the late 1970s.

1408 And I am always going to argue that this Congress and
1409 this government should not use this as a pay for. It should
1410 be used as it's designed.

1411 But we also ought to manage it -- if you've got a bulk
1412 asset that you've got a high basis on sell it -- buy it low
1413 and help the American taxpayer.

1414 With that, I yield back.

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1415 Mr. Olson. Thank you.

1416 Mr. Tonko, are you ready, sir? Are you ready? Five
1417 minutes for questions.

1418 Mr. Tonko. Thank you, Mr. Chair.

1419 Mr. Winberg, can you provide us with an update of DOE's
1420 current modernization plan and how great is the need to
1421 invest in the infrastructure in order to keep it operating
1422 effectively?

1423 Mr. Winberg. Yes. We -- to answer the second part of
1424 your question, I think the need is pretty great. This
1425 facility, as we have talked about, is over 40 years old.

1426 The last major upgrade was about 25 years ago. So we
1427 have piping, pumps, and valves that need to be replaced on
1428 the surface.

1429 So the need is pretty great. We have got a Life
1430 Extension program and we are developing that program so that,
1431 A, we can best handle the legislatively mandated sales, and
1432 then, B, the Life Extension program is being designed so that
1433 we can upgrade our systems to allow the SPRO to operate post-
1434 2027 for an additional 25 years.

1435 Having said that, the Life Extension program on the way
1436 it's been designed has enough flexibility so that if we
1437 decide we are going to lease space to other countries or
1438 commercial leases, we have got enough flexibility in the

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1439 program so that we can adjust it so that we are not using
1440 taxpayer dollars to upgrade systems that perhaps someone
1441 leasing would pay for.

1442 Mr. Tonko. Thank you.

1443 And do you believe there is private sector demand for
1444 SPRO capacity?

1445 Mr. Winberg. That's a great question, and we don't know
1446 the answer to that yet. What we are planning to do is send
1447 out a request for information on RFI out into the marketplace
1448 and what we want to find out is, A, is there a need for
1449 government-owned storage in the commercial market; B, how
1450 would they utilize that storage space if we leased it to
1451 them; and then, C, are there concerns or issues with the
1452 government leasing space in a market that has mostly been
1453 done by commercial entities.

1454 Mr. Tonko. So and how would it compare to existing
1455 storage options -- for example, a tank storage or --

1456 Mr. Winberg. Right. We don't yet know the answer to
1457 that question either. That will be informed by the RFI.
1458 Once we know how private industry might want to utilize this
1459 storage, then we can put a cost, because there will be some
1460 capital needed in order to facilitate commercial activities.

1461 Mr. Tonko. And do you believe there is an opportunity
1462 to use the revenues raised by commercial leases to invest in

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1463 modernization to benefit the public's use of SPRO?

1464 Mr. Winberg. I think there might be. But, again, we
1465 will -- we are a little bit early in the process to know that
1466 right now.

1467 But that's, certainly, the hope, and I think if there
1468 wasn't value to the taxpayer I would -- I'd question whether
1469 or not we want to enter into this type of arrangement.

1470 Mr. Tonko. Okay. And SPRO is able to draw down and
1471 deliver crude oil within 13 days?

1472 Mr. Winberg. Yes, sir.

1473 Mr. Tonko. Are you confident that space can be leased
1474 without slowing down the federal government's ability to
1475 utilize SPRO?

1476 Mr. Winberg. That would be one of the key issues or key
1477 elements of any leasing program that we entered into with
1478 commercial clients but also with other countries, if we chose
1479 to go that route.

1480 The American taxpayers bought and paid for this thing.
1481 They have maintained it for the last 40 years. So our
1482 responsibility is to the U.S. taxpayers to make sure that, A,
1483 we are meeting our domestic oil requirements and, B, that we
1484 are meeting our international requirements as well.

1485 Mr. Tonko. And I appreciate that.

1486 In the Northeast, we are particularly vulnerable to

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1487 supply disruptions, which can be caused by natural disasters
1488 such as a hurricane like Superstorm Sandy.

1489 The Northeast gasoline supply reserve was created to
1490 mitigate those risks and, thankfully, it hasn't been needed
1491 yet. But that doesn't mean it won't be needed in the future.

1492 So I would really caution the administration against
1493 trying to dissolve this reserve. I think, again, for our
1494 region of the country it's of great concern.

1495 And with that, I thank the chair and yield back.

1496 Mr. Olson. Thank you.

1497 And seeing no more further witnesses, members seeking to
1498 ask questions, I'd like to thank you, Mr. Winberg, for coming
1499 today.

1500 All members should know they have five days to submit
1501 questions for the -- 10 days -- another panel. Okay. I'll
1502 back off.

1503 Thank you, Mr. Winberg. Before you leave, as Vice
1504 Chairman Barton will confirm with your boss, you have to say
1505 gig 'em over and over. Thumbs up. Gig 'em, Aggies.

1506 Mr. Winberg. Thank you.

1507 Mr. Olson. Uh-oh. Is your mic? You sure? One more
1508 time.

1509 Thank you, Mr. Winberg.

1510 Mr. Winberg. Thank you.

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1511 Mr. Olson. Second panel, please come up.

1512 It looks like we are ready so let's kick off the second
1513 panel.

1514 Our witnesses for the second panel today include Mr.
1515 Frank Rusco, director of natural resources and environment at
1516 the GAO; Mr. Daniel Evans, project manager for Fluor Federal
1517 Petroleum Operations; and Mr. Kevin Book, managing director
1518 for ClearView Energy.

1519 We are so thankful for you all being here today. We
1520 will begin this panel with Mr. Frank Rusco. You are
1521 recognized for five minutes to give an opening statement.

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1522 STATEMENTS OF FRANK RUSCO, DIRECTOR, NATIONAL RESOURCES AND
1523 ENVIRONMENT, GOVERNMENT ACCOUNTABILITY OFFICE; DANIEL M.
1524 EVANS, PROJECT MANAGER, FLUOR FEDERAL PETROLEUM OPERATIONS;
1525 KEVIN BOOK, MANAGING DIRECTOR, CLEARVIEW ENERGY PARTNERS, LLC

1526

1527 STATEMENT OF FRANK RUSCO

1528 Mr. Rusco. Thank you, Mr. Chairman, Ranking Member, and
1529 members of the subcommittee.

1530 I am pleased to be here today to discuss our recent
1531 report on DOE's management of the SPR. The SPR is an
1532 important energy security asset capable of mitigating
1533 negative effects of global oil supply disruptions in concert
1534 with other IEA member countries.

1535 In several collective actions of IEA members, the SPR
1536 has been effective at adding oil supply during actual or
1537 expected supply disruptions.

1538 To date, however, the SPR has most often been used in
1539 response to domestic supply disruptions caused by extreme
1540 weather. In such events, the SPR has been less effective
1541 because SPR infrastructure has not been able to deliver
1542 reserves when, where, and in the form they are needed.

1543 In particular, when severe weather has battered Gulf
1544 Coast states, damaging refineries or electricity grids needed
1545 to run pipelines, SPR oil reserves in the Gulf Coast have not

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1546 been effective in mitigating what have generally been
1547 shortages in finished petroleum products such as gas line and
1548 diesel fuel.

1549 Most IEA member countries hold significant parts of
1550 their strategic reserves as petroleum products. DOE has
1551 studied such product reserves and the conclusions of its
1552 studies point to net benefits in some regions.

1553 Yet, DOE has disagreed with our recommendation to
1554 complete these studies and advise Congress of its findings.

1555 In addition, we found that DOE's most recent strategic
1556 analysis of the SPR, which was mandated by Congress, was
1557 deficient in several key ways.

1558 These deficiencies denied Congress better information to
1559 make decisions about the size, disposition, and configuration
1560 of the SPR.

1561 For example, DOE did not do adequate risk-based scenario
1562 analyses of when the SPR may be called upon to deliver oil or
1563 petroleum products and, as a result, DOE cannot advise
1564 Congress on even a credible range of sizes, composition, or
1565 disposition of reserves that would best enhance energy
1566 security across a range of potential future events.

1567 Further, in part, because of the way in which the SPR
1568 has been used over the years and in part just because needed
1569 maintenance has been deferred for many years, the SPR storage

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1570 and delivery infrastructure is in serious disrepair.

1571 DOE's current plan is to rebuild the existing SPR
1572 infrastructure in its historical configuration and capacity.
1573 If this is done and, given planned future sales of SPR oil,
1574 the SPR will have excess storage capacity in the future.

1575 However, DOE made its plan to rebuild and repair SPR
1576 infrastructure without adequately studying alternatives,
1577 including selling or leasing such excess capacity.

1578 The discussion draft that is the focus of this hearing
1579 goes a long way toward requiring DOE to rectify some of the
1580 deficiencies in its strategic study and its SPR modernization
1581 plan.

1582 Specifically, the discussion draft requires DOE to take
1583 actions to evaluate and test the market for leasing its
1584 excess capacity by, one, authorizing the leasing of storage
1585 and related facilities to private sector and foreign
1586 entities; two, directing revenue earned from such leases to
1587 the general fund and to cover costs associated with leasing;
1588 and three, requiring a pilot program to lease 200 million
1589 barrels of excess capacity.

1590 To make fiscally prudent decisions about how to
1591 implement such a pilot, DOE will have to conduct additional
1592 analyses. For example, DOE's decision to use fresh water to
1593 displace oil during releases has caused the SPR's salt

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1594 caverns to deteriorate over time with use.

1595 Fresh water absorbs salt, which increases the size and

1596 alters the shape of caverns and damages their integrity.

1597 Alternatively, there are salt cavern facilities operated by

1598 the private sector that use brine to displace that oil during

1599 release, which does not have these effects.

1600 Brine ponds add operation and maintenance costs but

1601 increase the life of caverns. Ideally, GAO should evaluate

1602 this and many other factors we have identified before

1603 finalizing its modernization plans to ensure the SPR is run

1604 in an effective and fiscally prudent manner.

1605 Thank you. This ends my oral remarks. I'll be happy to

1606 answer questions.

1607 [The prepared statement of Mr. Rusco follows:]

1608

1609 *****INSERT 4*****

1610 Mr. Olson. Thank you, Mr. Rusco.

1611 Mr. Evans, five minutes for an opening statement, sir.

1612 Microphone, please. Sounds like -- hit the right button

1613 here.

1614 Mr. Evans. I am here. There we go. Start again.

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1615 STATEMENT OF DANIEL EVANS

1616

1617 Mr. Evans. Good morning, Vice Chairman Olson, Ranking
1618 Member Rush, and members of the Subcommittee on Energy.

1619 I am the project manager for Fluor Federal Petroleum
1620 Operations, Dan Evans. We are the maintenance and operation
1621 contractor for the Department of Energy at the Strategic
1622 Petroleum Reserve since 2004.

1623 Fluor's partnerships with DOE date back to the Manhattan
1624 Project. Today, in addition to the SPR, we are currently
1625 active in roles with DOE facilities that are part of the
1626 Environmental Management and National Nuclear Security
1627 Administration missions.

1628 The congressionally-mandated sales have changed the day-
1629 to-day operations of the SPR dramatically. The sites have
1630 gone from a 4.4 million barrel per day draw down and
1631 readiness posture to maintaining draw down readiness while at
1632 the same time conducting intermediate variable rate
1633 deliveries from the reserves.

1634 Working with DOE, Fluor has met this challenge. One
1635 example is the response to the impacts to Hurricane Harvey.
1636 We were able to maintain mission draw down readiness
1637 throughout the event and deliver approximately 5 million
1638 barrels of crude oil to refineries in need.

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1639 I would like to note that to support this need, certain
1640 employees volunteered to leave their own homes at peril,
1641 their whole families, and endure the hurricane at the Texas
1642 sites.

1643 They provided day-to-day monitored conditions and real
1644 time updates on the readiness for us to fill the nation's
1645 mission. The dedication of SPR employees to the mission is
1646 American exceptionalism at its finest.

1647 The sales have and continue to put a significant level
1648 of stress on aging SPR infrastructure. In some cases, we
1649 have postponed planned maintenance and diverted funding to
1650 address emergency repairs.

1651 As we continue the draw down over the next nine years,
1652 Congress should not lose sight of the importance of the SPR's
1653 annual maintenance funding to be able to address the needs of
1654 the sites and make necessary repairs to execute the current
1655 contemplated draw down schedule.

1656 Next, I would like to address the ideas raised by the
1657 subcommittee's discussion draft. Fluor, of course, stands
1658 ready to support the leasing and operation of underutilized
1659 cavern capacity.

1660 We anticipate in the particular draft legislation the
1661 committee has provided the authorization without further
1662 appropriation to use a portion of leased revenue cost related

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1663 to storage and removal incurred by the SPR as a result of
1664 releases.

1665 Commercially-leased petroleum storage currently
1666 presently operates under one of two models -- segregated or
1667 co-mingled.

1668 In segregated storage, the product accepted for storage
1669 is the same product that is ultimately delivered. Under the
1670 co-mingled model, a limited range of products are accepted
1671 for storage.

1672 When a withdrawal is made, a product of agreed to
1673 specification is then provided to the owner of the equivalent
1674 product that was accepted into storage.

1675 Either model presents challenges for leasing at SPR
1676 facilities while maintaining government inventories.
1677 Presently, the government practices intensive inventory
1678 management -- segregating crude oil by two specifications and
1679 tracking the volumes down to the very barrel not only across
1680 caverns but also with piping, pipelines, and crude oil
1681 storage tanks.

1682 If the SPR designates specific caverns to be leased for
1683 storage under the segregated model, the cavern is nonetheless
1684 integrated into the site infrastructure.

1685 The operation of a storage cavern requires routine
1686 ability to convey crude oil, water, and salt brine in and out

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1687 of the cavern for purpose of preventative and corrective
1688 maintenance.

1689 The cycling of fluids in and out of leased caverns with
1690 equipment in common with the SPR storage caverns will,
1691 inevitably, lead to co-mingling of government and commercial
1692 assets which will, in our opinion, require additional capital
1693 investments.

1694 The co-mingled model shares the same challenges of the
1695 segregated model and also adds additional complexities in
1696 terms of product quality matters and tracking thereof.

1697 In conclusion, two policy issues require resolution
1698 prior to implementing a lease storage concept. The first,
1699 it's a target inventory of the SPR.

1700 Congress should also carefully consider the overall
1701 leasing concept to be adopted. We strongly recommend that
1702 should Congress move forward with a leasing regime, it allows
1703 sufficient time to make this determination and to develop and
1704 physically implement the necessary SPR enhancements.

1705 Mr. Vice Chairman, thank you again for the opportunity
1706 to appear here today. I stand by to answer any questions
1707 that you might have.

1708 [The prepared statement of Mr. Evans follows:]

1709

1710 *****INSERT 5*****

1711 Mr. Olson. Thank you, Mr. Evans.

1712 Mr. Book, five minutes for an opening statement, sir.

1713 STATEMENT OF KEVIN BOOK

1714

1715 Mr. Book. Thank you.

1716 Good morning, Vice Chairman Olson, Ranking Member Rush,
1717 Vice Chairman Barton, distinguished members of this
1718 committee.

1719 My name is Kevin Book. I lead the research team at
1720 ClearView Energy Partners, an independent firm that analyses
1721 macro energy issues for institutional investors and corporate
1722 strategists.

1723 Thank you for inviting me to contribute to your
1724 discussion regarding modernization of the SPR. I would like
1725 to begin by offering my admiration for the foresight the U.S.
1726 Congress showed in creating the SPR.

1727 In my view it remains one of the greatest energy
1728 security achievements in modern history. It still matters,
1729 too. Even with U.S. crude production averaging 11 million
1730 barrels per day during the week ending July 13, that surge is
1731 good news. But those barrels already have customers.

1732 As a government-controlled stockpile, the SPR can
1733 provide emergency supply that comes from outside the market.

1734 That said, ensuring against worldwide economic fallout
1735 and sheltering U.S. consumers may require a robust and well-
1736 functioning reserve capable of delivering its full design

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1737 capability.

1738 Today's discussion reflects that Congress has passed six
1739 major laws in the last four years that mandate, roughly, 300
1740 million barrels of oil sales from the SPR.

1741 Those sales could leave the SPR with approximately 400
1742 million barrels at the start of fiscal 2018. It, therefore,
1743 seems prudent to ask whether and how the resulting surplus
1744 storage capacity might be put to productive use.

1745 Today's legislative draft would expand storage leasing
1746 currently available to foreign governments so that private
1747 commercial entities could lease SPR space too.

1748 In my opinion, a pilot leasing program of this sort
1749 could potentially benefit U.S. producers and refiners in need
1750 of additional storage.

1751 If that program also helped to preserve or expand SPR
1752 capabilities at the same time, it could enhance petroleum
1753 supply insurance for U.S. consumers, too.

1754 My testimony offers several additional considerations.
1755 From a feasibility perspective, DOE might wish to evaluate
1756 the costs of restoring, rehabilitating, or improving spare
1757 capacity to support the requirements of commercial lessees.
1758 Those requirements can differ in many cases from current
1759 long-term strategic storage requirements.

1760 DOE might also wish to evaluate availability of takeaway

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1761 capacity from leased storage sites, especially in the absence
1762 of incremental SPR marine distribution capacity.

1763 Storage with faster deliverability can command a higher
1764 market price also.

1765 From a competitiveness perspective, it may be useful for
1766 DOE to evaluate the market impact of introducing up to 2
1767 million barrels of crude storage into the Gulf Coast, also
1768 known as PAD 3.

1769 In March 2018, the Energy Information Administration, or
1770 EIA, counted 341.2 million barrels of working storage
1771 capacity at refineries, tank farms, and underground
1772 facilities in PAD 3.

1773 The agency assessed that about 49 percent of that
1774 capacity was in use of that time. That was a big change from
1775 two years earlier.

1776 Storage volumes grew by 29.7 million barrels since the
1777 EIA's March 2016 report and did not report the agency-
1778 assessed PAD's restorage capacity at a much higher 68 percent
1779 capacity utilization.

1780 It could be undesirable if additional low-cost
1781 government-run SPR storage were to crowd out existing
1782 privately operated facilities.

1783 Likewise, salt cavern storage tends to be significantly
1784 cheaper than tank storage and so-called floating storage in

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1785 leased tankers. But draw down constraints and take-away
1786 bottlenecks could limit commercial demand compared to tank
1787 farms and ships.

1788 Finally, from a strategic perspective, capacity leasing
1789 should probably also reflect the vision Congress and the
1790 department have for the reserve.

1791 For example, today's draft would allocate net balances
1792 to the general fund. It might be worth considering whether
1793 proceeds could also pay for expanded modernization.

1794 To this point, the U.S. has dramatically reduced its net
1795 petroleum imports. But U.S. refiners still import gross
1796 volumes of about 6.3 million barrels per day.

1797 When they do, they pay global prices that reflect global
1798 supply demand balances. Today's oil prices remain high,
1799 relative to historical norms.

1800 Partly, this is because global oil production is itself
1801 running at relatively high capacity utilization. Crude
1802 prices are also high because global inventories have thinned
1803 out.

1804 Currently, OPEC producers are drawing on spare capacity
1805 to offset losses from collapsing Venezuelan production. They
1806 soon could lean even harder on spare production capacity to
1807 replace Iranian crude oil barrels.

1808 That, by the way, set off my Siri. I apologize. I am

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1809 not sure why.

1810 And what happens when the production system is stressed
1811 and inventories are lean and a big supply disruption occurs
1812 somewhere in the world?

1813 In that situation, without strategic reserves, the oil
1814 market must balance and painfully so on the backs of
1815 consumers. Preventing that result, in short, is the nature
1816 of the insurance the SPR provides.

1817 Mr. Chairman, this concludes my prepared testimony. I
1818 will be happy to answer any questions at the appropriate
1819 time.

1820 [The prepared statement of Mr. Book follows:]

1821

1822 *****INSERT 6*****

1823 Mr. Olson. Thank you, Mr. Book, and thank you, all our
1824 witnesses.

1825 I will now move into the Q and A portion of the hearing.
1826 I will begin the questioning. I recognize myself for five
1827 minutes.

1828 First of all, again, welcome to our three experts. A
1829 special welcome to Mr. Evans. Fluor Enterprise -- big tall
1830 building, one street light up from my official office area --
1831 Sugarland, Texas. So welcome, welcome, welcome, dear friend.

1832 My first question is for you, Mr. Book. As a point on
1833 the first panel, Texas oil production is booming. I won't
1834 brag, but right now we are moving a lot of light crude to the
1835 coast about as fast as we possibly can.

1836 If the SPR were open to lease by the industry, do you
1837 think, first of all, number one, there would be interest?
1838 Number two, would there be value as a holding location for
1839 more oil or would the benefits be in the uncertainties going
1840 forward with leasing this great asset we have, the SPR?

1841 Mr. Book. Congressman, I think bragging is appropriate
1842 and you should be proud. That crude is going to keep going
1843 to coast, as you say, and exported to global markets that can
1844 use it for value.

1845 I think Secretary Winberg was wise to suggest that an
1846 inquiry of commercial interest would be a good place to

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1847 start. One of the issues that you have right now is that you
1848 do have storage building at export and transit sites in the
1849 Gulf Coast and its building quite rapidly.

1850 The SPR could serve a different purpose for long-term
1851 storage today. But as the other witnesses have mentioned, it
1852 would require adaptation to be potentially useful for the
1853 kinds of commercial applications that different kinds of
1854 customers might use.

1855 But definitely there's going to need to be more storage
1856 if you in Texas keep producing more crude.

1857 Mr. Olson. Count on it, guaranteed.

1858 Second question is for you, Mr. Rusco. AS you know, the
1859 DOE has taken some steps in modernizing the SPR. However,
1860 much work still remains and at the moment the SPR seems to
1861 lack a clear end goal.

1862 Can you talk about the most important steps DOE has
1863 taken -- what you think the best forward pathway forward to
1864 them to get this thing up and running to modernize?

1865 Mr. Rusco. I am encouraged that the assistant secretary
1866 was talking about testing the market and going out and trying
1867 to figure out what the market is and also that is cognizant
1868 of the differences in a way that different entities might use
1869 excess capacity.

1870 So it's our cost of storing fuel -- oil in the ground is

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1871 much lower than most IEA members' costs and there are members
1872 that would like to store oil in our reserves. So that may be
1873 ultimately the best way. But you got to test the market to
1874 know. I am encouraged about that.

1875 What I am concerned about is DOE has not done a good job
1876 of periodically assessing how the market has changed, how
1877 energy security issues have changed, and doing complex risk-
1878 based analysis involving scenarios of possible use. That's
1879 what they need to do.

1880 Mr. Olson. Thank you. Mr. Winberg is right over your
1881 left shoulder. So message accepted and sent. Thank you so
1882 much.

1883 Final questions for you, Mr. Evans, of Fluor. The SPR
1884 sites are made for long-term storage. But we certainly have
1885 a lot of maintenance issues.

1886 Fluor has been maintained as this asset for over almost
1887 two decades, as you said. Can you please tell me about the
1888 most common cause of maintenance issues and whether the DOE
1889 or the private sector can be better suited to fix these
1890 problems as quickly as possible?

1891 Mr. Evans. So the most common maintenance issues that
1892 we face today are with regards to the equipment that was not
1893 placed during Life Extension One. That was the '91 to '95
1894 time frame.

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1895 We have a lot of piping valves, actuators, and those
1896 kinds of pieces of equipment that are 40 years old. We did
1897 have a rupture in a low-pressure fresh water system at the
1898 Big Hill that was a dramatic one and that's our second
1899 significant rupture there.

1900 We find more and more common leaks and we are able to
1901 deal with them very quickly. But Life Extension Two, and if
1902 it's smartly coupled with a concept to commercialize could
1903 replace and deal with, those highest level of common kinds of
1904 maintenance risks.

1905 We also have a very old degasification plant that's on
1906 its last legs at the West Hackberry Louisiana site. Part of
1907 LE2 then is to recycle that and come in with a new much more
1908 modular modern design that will be more efficient to make
1909 sure that we can deliver crude oil even during difficult hot
1910 months -- the end of the pipeline system.

1911 Mr. Olson. Thank you, Mr. Evans.

1912 My time has expired.

1913 Now the chair calls on the ranking member of the
1914 subcommittee, Mr. Rush, for five minutes.

1915 Mr. Rush. I want to thank you, Mr. Chairman.

1916 I want to ask each witness if you would give me feedback
1917 on this draft legislation.

1918 Do you feel that there is a need for the draft or you --

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1919 do you find it helpful or are you concerned about any of the
1920 unintentional consequences? And I would like to just ask
1921 each one of you if you would respond to the question, and
1922 beginning with you, Mr. Rusco.

1923 Mr. Rusco. I think that the draft legislation addresses
1924 an important issue that DOE had not been thinking about when
1925 they planned their modernization and that is that there is
1926 going to be excess capacity.

1927 And it makes good sense to try to use that capacity in a
1928 way that can help pay for the modernization and pay for the
1929 routine operations and maintenance so that we don't end up
1930 10, 20 years later with a bunch of deferred maintenance and
1931 depreciated usefulness of the assets.

1932 Mr. Evans. Mr. Rush, we at Fluor here to implement
1933 these at the pleasure of the Congress and the department. We
1934 certainly would be responsive in the near term to integrating
1935 immediate team needs to, as I mentioned earlier, to go the
1936 market to understand what market demands are, to perform
1937 engineering and operations analysis studies that would take a
1938 look at what we needed to do to operate under market
1939 conditions.

1940 Number three, see how to fully integrate those with Life
1941 Extension Two so we can take advantage of the significant
1942 change in investment that Congress is making in the SPR, and

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1943 then do all the environmental studies necessary as well to
1944 make sure that that operates as integrate smart hole.

1945 I do think that, with the addition of things like brine
1946 caverns that were mentioned earlier by Secretary Winberg,
1947 those would be very beneficial for overall operation in the
1948 long run for the SPR for the government as well as for
1949 commercial customers.

1950 Mr. Rush. Mr. Book.

1951 Mr. Book. Congressman Rush, I think it's a good idea to
1952 make best use of what you have, particularly if you have a
1953 way of making money for the taxpayer using an asset owned by
1954 the taxpayer. That's always a good idea.

1955 You asked about unintended consequences and I think that
1956 Secretary Winberg has already suggested that he wants to take
1957 a look at it -- the implications of this. Part of
1958 understanding the role of government is understanding the way
1959 in which government actions can impact private investment.

1960 It's always a bad idea to lean too heavy with the
1961 government on something that where private industries put
1962 capital to work.

1963 And so if I had any concern it would be that -- that
1964 there would a risk potentially of commercially undercutting
1965 existing investments.

1966 But until one looks at it, there's no reason to not

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1967 proceed with looking into it.

1968 Mr. Rush. I want to thank each and every one of you.

1969 Mr. Rusco, in your testimony you state that if DOE is
1970 authorized to lease unused small storage capacity to the
1971 private sector, as this bill would do, this leasing capacity
1972 could generate revenue that could help offset the costs of
1973 modernization.

1974 Are you confident that DOE will indeed look at this
1975 issue and, if not, what are some of the missing opportunities
1976 of not examining this particular topic or subject?

1977 Mr. Rusco. I am confident that DOE will pay attention
1978 to what you all do and my concerns are sort of where the bill
1979 doesn't specify what to do and DOE has not been very
1980 proactive in evaluating the strategic, you know, purpose and
1981 future on an ongoing basis of the strategic petroleum
1982 reserved and, hence, we got to a point where we, clearly,
1983 according to a lot of folks in Congress had more oil than we
1984 ought to have.

1985 There's been a lot -- there's going to be a lot of
1986 drawdowns. But that was done without a really quality
1987 strategic look at the pros and cons of that from DOE.

1988 Mr. Rush. Well, thank you, Mr. Chairman. I yield back.

1989 Mr. Olson. Thank you.

1990 The chair now calls upon the one man who knows more

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1991 about this topic than any single human being in Congress,
1992 vice chairman of the full committee, Chairman Joe Barton.

1993 Five minutes, sir.

1994 Mr. Barton. Well, I am not sure that's true, Mr.
1995 Chairman. But if it is true that still doesn't say much.

1996 So well, but it does point out a fact is that there
1997 really hasn't been a strategic look at the SPR in a long time
1998 and the last three or four Congresses, as our oil production
1999 has ramped up in the United States, especially since the
2000 repeal of the crude oil export ban and our ability to lessen
2001 our imports, the Congress is using this as a piggy bank and
2002 it's not being evaluated.

2003 It's we need money -- let's take oil out of the SPR.
2004 This own committee -- we did it the last Congress. 21st
2005 Century Cares -- we needed some money, we've got jurisdiction
2006 over the SPR so we just said we are going to use the -- we
2007 are going to sell some oil and use it. The Budget Committee
2008 is using it. The omnibus is and the appropriation process
2009 is.

2010 Long story short, under current law, even though it says
2011 only the president can make a decision to use the reserve and
2012 he has to declare that it's a national emergency, Congress
2013 says notwithstanding any other law we are going to sell oil
2014 for this or that or bacon fat.

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2015 And so this draft bill before us says we don't want to
2016 change the basic mission statement but we want to add a
2017 mission statement. Under current law, you can't use the SPR
2018 for storage for private purposes. It's illegal.

2019 And so we decided let's see if maybe the private sector
2020 wants to use it. Now, Mr. Book's concerns -- we don't want
2021 the private -- we don't want the private sector to be crowded
2022 out on storage capacity. I think that's valid.

2023 But it's not mandatory. We are going to -- if we don't
2024 -- if we don't sell another barrel of oil other than what
2025 we've already authorized, we are going to have over a 100
2026 million barrels of existing capacity that could be utilized -
2027 - maybe two -- we were authorized up to a billion barrels.
2028 But we don't have the capacity -- current physical capacity
2029 but about a little over 700 million.

2030 Let's see if the private sector might want to use that,
2031 and this problem of being able to maintain the reserve
2032 because it has to be appropriated -- we've got to ask the
2033 appropriators to appropriate it -- and some years they do,
2034 some years they don't.

2035 We changed that. We give the specific authority to the
2036 secretary. All the money goes into the general fund. But we
2037 allow money from rentals fees, so to be used to maintain and
2038 improve the reserve without appropriate -- and go through the

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2039 appropriation process. That puts control in this committee
2040 in the Energy and Commerce.

2041 So we are trying to fix that problem. I guess I will
2042 ask Mr. Book, given the existing market dynamic, would the
2043 private sector decide to utilize the reserve to store their
2044 own crude oil? What's your bet on that?

2045 Mr. Book. Well, if you ask an analyst to take a bet
2046 you're probably going to get an analyst answer. It could be
2047 right or wrong and I will come up with a new one for you when
2048 it's wrong.

2049 But the private sector breaks down into different sets
2050 of customers. So you do have folks who are trading oil, and
2051 when the future price of oil is higher than the current price
2052 of oil, there's an incentive to store.

2053 They're going to want to move oil out of their storage
2054 pretty quickly when the market turns around, as it sometimes
2055 does. And then you have the government customers that we
2056 mentioned and other potential long-term storage customers or
2057 longer-term storage customers and we have different needs.

2058 And I think until you ask and see what's on offer out
2059 there, it's hard to know. Right now, what you have are mid-
2060 stream companies that are building out storage as their
2061 developing transit capabilities, leasing that storage, and
2062 coming up with innovative new ways.

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2063 Mr. Barton. But they're having to pay capital costs to
2064 build and operate it.

2065 Mr. Book. Well, that's right. They do have --

2066 Mr. Barton. And under this case, you have existing
2067 capacity that it is a lease or a rental -- I am not sure how
2068 they would -- how we would do it. But there's no upfront
2069 cost, except a commitment -- probably a time certain
2070 commitment.

2071 Mr. Book. Yes. I mean, the costs of salt cavern
2072 storage are generally cheaper than tank storage and certainly
2073 cheaper than leasing a ship to store it and then floating
2074 storage when things get tight.

2075 So it could be very competitive.

2076 Mr. Barton. Well, what we're -- what we are trying to
2077 do -- Mr. Rush and I -- we are trying to -- we have an asset
2078 that's underutilized. We are going to have excess capacity.

2079 Why not have a new mission statement that complements
2080 the private sector -- allows the private sector but doesn't
2081 mandate the private sector? Maybe it'll work. Maybe it
2082 won't.

2083 But we are not going to be worse off than we are and we
2084 will probably be better off if the private sector makes a
2085 decision to utilize it because it's going to give some
2086 funding that's at the discretion of the secretary of energy

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2087 to improve the facility and I think it's worth a shot.

2088 But there may be other ideas. Anyway, my time has
2089 expired.

2090 Mr. Olson. Thank you. The chair now calls upon the
2091 gentleman from California, Mr. McNerney, for five minutes,
2092 sir.

2093 Mr. McNerney. Well, thank you, Mr. Chairman.

2094 I appreciate Mr. Barton's remarks about this. But I
2095 have a question. Is -- sort of a philosophical question --
2096 is leasing capacity to foreign governments or private
2097 entities is that going to degrade the capacity -- the long-
2098 term capacity of the caverns?

2099 Mr. Evans.

2100 Mr. Evans. I am not an expert in the interests of
2101 foreign governments. I think that if appropriately handled
2102 that the caverns themselves can remain integral, if we use
2103 brine drive to be able to handle those issues and do multiple
2104 small drawdowns that we could continue to operate those in
2105 the interests of the government, should we wish to terminate
2106 agreements with either commercial or foreign countries.

2107 Mr. McNerney. Well, Mr. Rusco, do you believe that the
2108 current proposed legislation will give us enough information
2109 to provide that guidance to the operating SPRO effectively
2110 and not degrading its capability?

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2111 Mr. Rusco. I think it's -- I think that the
2112 implementation of this legislation by DOE would have to --
2113 matters a lot. They would have to implement this in a way
2114 where there are controls.

2115 So, for example, if they were to lease this to other IEA
2116 members, lease the access capacity to store long-term oil,
2117 which I want to say we have the cheapest -- the cheapest
2118 storage of anybody in the world and we know of at least two
2119 countries that have actually contacted DOE about leasing
2120 space like this.

2121 If you did that, then you're really enhancing global
2122 energy security because you have longer -- you have larger
2123 storage of crude oil in exactly the same place that it would
2124 be if we owned it all.

2125 Now, if the private sector owns it, then we have smaller
2126 capacity here. Other countries have to have their storage
2127 capacity somewhere else.

2128 Mr. McNerney. So my question is does the proposed
2129 legislation give us and you and the operators the capability
2130 to operate it in a way that would be beneficial rather than
2131 detrimental to the long-term capacity? Or does it need to be
2132 enhanced or improved?

2133 Mr. Rusco. I think that what I have read, which is just
2134 the discussion draft, that there -- you could implement this

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2135 in a way that would give you flexibility to say okay, we want
2136 more -- if we want more of that capacity for our own storage,
2137 then when a contract is terminated you could take it back and
2138 use it as U.S. storage. So I believe it would have that
2139 flexibility.

2140 Mr. McNerney. Okay. Thank you.

2141 Again, Mr. Rusco, do you think there's a good enough
2142 case for product reserve capacity in the western part of the
2143 country -- on the West coast where we have earthquakes?

2144 Mr. Rusco. We looked at studies that were done by DOE
2145 and those studies came to the conclusion that in the case of
2146 the Southeast and the West Coast there were net positive
2147 benefits to these things.

2148 DOE chose not to release those reports. They say
2149 they're not complete. They've chosen not to complete those
2150 reports. But everything that is in those reports indicates
2151 that there are net positive benefits to that.

2152 Mr. McNerney. Thank you.

2153 Mr. Evans, you talked a little bit about co-mingling and
2154 the inevitability of co-mingling, and refineries are
2155 specialized in terms of the kind of oil they take.

2156 How is the co-mingling going to impact the refineries'
2157 ability to produce product -- gasoline and other products?

2158 Mr. Evans. I think the -- it's a great question. Each

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2159 particular demand would be somewhat different, Congressman.

2160 But, however, if we were to lease to a, say, a shell or
2161 a commercial entity, the crude oil that would be stored there
2162 in their own cavern, if you would, you would think that it
2163 would make sense for them to store the material that they
2164 would utilize most effectively in terms of a turnaround of a
2165 refinery without product.

2166 So I think the market handles that piece. We'd have to
2167 be very careful about co-mingling the crude oil with the
2168 government oil, and those are practices that are commonly
2169 done -- this is not an impossibility.

2170 But we are, for example, very sensitive to a high gas
2171 content oil in our reserves. We believe that's very
2172 detrimental to the overall safety and quality of the
2173 reserves.

2174 So we have to manage that extremely carefully. We think
2175 our current regime is a good one in terms of being able to
2176 respond to refinery needs on an instant basis and if we were
2177 able to add, similarly, that -- to that mix within the right
2178 blend level, that that ought to be utilized well as well.

2179 Mr. McNerney. Thank you.

2180 Mr. Chairman, I yield back.

2181 Mr. Olson. Thank you.

2182 Mr. Doyle, five minutes for questions, sir.

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2183 Mr. Doyle. And I thank you to the witnesses today.

2184 Let me just ask all the witnesses -- it's been noted I
2185 think in Mr. Rusco's testimony that the U.S. will become a
2186 net exporter in the late 2020s but then become a net importer
2187 again in 2040, 2050s.

2188 So in your opinion, how should the U.S. be prepared for
2189 this long-term outlook for the SPRO?

2190 Mr. Rusco. Our most recent report is not the first time
2191 we've recommended to DOE that they do periodic strategic
2192 studies of conditions and report to Congress about what they
2193 see coming down the pike.

2194 So if we see a situation where our net imports are going
2195 to be increasing over the next few decades at some point, DOE
2196 should be up here talking to you all and saying we need to
2197 rethink our capacity.

2198 Similarly, if they think that they're -- that risks have
2199 either reduced or increased of global supply disruptions or
2200 if there's big changes to demand or supply in any other way,
2201 all of that stuff needs to be modelled on a regular basis so
2202 that they can give you really quality information so you can
2203 make good decisions.

2204 Mr. Doyle. Do you agree with that, Mr. Evans?

2205 Mr. Evans. I do. I think the market volatility is very
2206 significant right now. I am not an expert in global markets.

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2207 But reading the newspaper leads me to believe that there are
2208 a number of scenarios that could be invoked over time and,
2209 certainly, a value in having reserves.

2210 Mr. Doyle. Mr. Book.

2211 Mr. Book. I think it would take -- humility would be
2212 the minimum requirement for anyone looking at the global oil
2213 market, given how much things have changed over the last 10
2214 years.

2215 Mr. Doyle. Yes. Thank you.

2216 Mr. Rusco, you mentioned that \$2 billion from the sale
2217 of crude oil from the SPRO is authorized for the
2218 modernization program.

2219 Has this been implemented, in your opinion, effectively
2220 so far and do you have a status update on the use of these
2221 funds?

2222 Mr. Rusco. I don't. I don't have an up to date status.
2223 I know that there have been some sales. I think it's \$700
2224 million. But I don't think most of that money or much of
2225 that money has actually been spent.

2226 I think that DOE is further -- doing some further
2227 analysis before they actually spend that money. But I can't
2228 give you much more of an answer. I could give you something
2229 for the record.

2230 Mr. Doyle. Okay. Thank you.

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2231 Mr. Evans, how safe is the current infrastructure and
2232 how is your company prioritizing and planning for long-term
2233 safety?

2234 Mr. Evans. So we are very safety conscious. You will
2235 note our last three years on the SPR are the safest years
2236 that we have seen in the 40-year operation. It's one of
2237 Fluor's core values.

2238 We are very sensitive to the infrastructure and the
2239 quality of the infrastructure. We run routine programs and
2240 investigations that will allow us to take a look at the
2241 quality, for example, of the piping and those kinds of
2242 things.

2243 In the short term, it's manageable with, for example,
2244 the degasification unit it's on its last legs. We are not
2245 going to extend that unit. It simply is infeasible and
2246 impossible to do that.

2247 When we invest in Life Extension Two, we'll specifically
2248 look at those old and perhaps more risky components that need
2249 to be removed and to see how we can possibly configure those
2250 to be in a more safe and operating environment in the future.

2251 For example, old pipelines that are 40 years old that
2252 are underground that are not possible to send a "smart" pig
2253 through perhaps we want to reroute those and have a different
2254 method to be able to track the quality of what we've done.

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2255 So those are all a part of our -- the department's plans
2256 in moving forward.

2257 Mr. Doyle. So tell me, what type of financial
2258 investment does Congress as well as the DOE need to make to
2259 update and secure the SPRO's infrastructure?

2260 Mr. Evans. Well, I think the current, roughly, \$1.4
2261 billion is a terrific start in getting the infrastructure
2262 where it needs to go. It certainly attacks the high-profile
2263 things that we've got in our infrastructure.

2264 However, it will not replace all of the issues. We'll
2265 need to have a continual authorization and appropriation for
2266 major maintenance projects as they come around because by no
2267 means are we able to use the current funding to replace
2268 everything that we know that will be coming along in the next
2269 five to 10 years.

2270 Mr. Doyle. Do you have any idea what that number looks
2271 like, down the road?

2272 Mr. Evans. I am sorry. I do not, sir. We can take a
2273 look at that and get back to you.

2274 Mr. Doyle. Okay.

2275 Thank you, Mr. Chairman. Thank you.

2276 Mr. Olson. Thank you, Mr. Doyle.

2277 Mr. Tonko, five minutes for questions, sir.

2278 Mr. Tonko. Thank you, Mr. Chair, and welcome,

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2279 gentlemen.

2280 Mr. Rusco, as we have heard this morning, there have
2281 been a number of legislative requirements to sell SPRO oil in
2282 recent years.

2283 Do you believe that the frequent changes to SPRO's long-
2284 term size target have impacted DOE's ability to develop and
2285 maintain a modernization plan?

2286 Mr. Rusco. Well, I think that DOE's modernization plan
2287 was made largely without consideration for those sales and
2288 now they're adjusting to those sales and doing further
2289 analyses.

2290 So I think the modernization plan will also be affected
2291 by any legislation that comes out of this Congress about
2292 leasing excess capacity.

2293 But even if Congress does not mandate that they look
2294 into leasing excess capacity, DOE should do something with
2295 its excess capacity. They should either tell you that they
2296 need to shrink capacity or they -- or sell some, for example.

2297 But they need to do something because just leaving that
2298 excess capacity there is just throwing money away.

2299 Mr. Tonko. Thank you.

2300 And Mr. Evans, depending on how the leases are
2301 structured, might they result in additional stress on aging
2302 SPRO infrastructure, requiring greater investments in

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2303 modernization and improvements that then might otherwise be
2304 required?

2305 Mr. Evans. It is certainly hopeful that we'll -- with
2306 decisions made on a timely basis to go forward from Congress
2307 that we'll be able to integrate many of the needs for
2308 commercialization within the current LE2 environment since
2309 there are significant upgrades to pipelines and those kinds
2310 of things.

2311 Certainly, we are not currently intending to build brine
2312 drive caverns. That's an additional cost that we would
2313 incur. There may be other costs associated as well with
2314 piping interlinking and valving and control room
2315 modifications. Right now, we are not aware of those.

2316 However, I would venture that in the long term those
2317 would also benefit the longevity and utilization of the
2318 reserve.

2319 Mr. Tonko. Thank you very much.

2320 And this question, I guess, could go to any of the three
2321 of you. It's my understanding that the proposed pilot
2322 program would allow DOE to recover additional costs from the
2323 leases.

2324 How much of the proposed pilot program's revenue should
2325 be dedicated to investing in the SPRO modernization?

2326 Mr. Evans. I don't have a number figure. That's

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2327 probably better answered to you when we have some more
2328 detailed engineering studies and can get back to you on that
2329 topic.

2330 Mr. Tonko. Anyone else? Mr. Book, anything?

2331 Mr. Book. I am just an analyst, sir.

2332 [Laughter.]

2333 Mr. Tonko. Mr. Rusco, currently, is DOE able to enter
2334 into an agreement with a foreign nation to store oil at the
2335 SPRO without a change to the statute?

2336 Mr. Rusco. We believe that's correct, yes.

2337 Mr. Tonko. Thank you.

2338 And Mr. Book, I noticed in your testimony that there are
2339 other nations that meet their IEA requirements by holding oil
2340 abroad. Are there any reasons why entering into a contract
2341 with a foreign government may be preferable?

2342 Mr. Book. Well, the long-term nature of government
2343 strategic reserves comports with the existing infrastructure
2344 capabilities of the SPRO today.

2345 So the customer of first resort would be the customer
2346 that requires the least incremental maintenance. For that
2347 reason, it might make sense.

2348 Mr. Tonko. Mm-hmm. And do you believe that there would
2349 be demand from the private sector to lease this space?

2350 Mr. Book. Well, it depends an awful lot on what a

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2351 market test shows -- that there is going to be demand for
2352 more storage for crude oil in PAD 3 because there's going to
2353 be more crude oil production that will need to be stored.

2354 Mr. Tonko. Okay. Anyone else have ideas on that?

2355 Mr. Rusco. I am sure there's going to be private
2356 interest in this capacity. It's the cheapest way to store
2357 oil.

2358 Now, you have to make changes in the way that you take
2359 it -- put it in, take it out. You have to use the brine
2360 drive to do that. But it's still going to be cheaper.

2361 Mr. Tonko. Right.

2362 Mr. Evans, did you want to comment on that?

2363 Mr. Evans. We would also agree that -- with Mr. Book
2364 that it would be simplest, most efficacious and, perhaps,
2365 quickest to be able to lease whole caverns to foreign
2366 governments as an instantaneous benefit to them and to the
2367 U.S. government as well.

2368 Mr. Tonko. Thank you. Thank you, gentlemen, and thank
2369 you, Mr. Chair.

2370 I yield back.

2371 Mr. Olson. Thank you, and the chair now calls upon the
2372 ranking member, Mr. Rush, for one additional question.

2373 Mr. Rush. I really -- Mr. Tonko opened up some thoughts
2374 and I just want to ask -- we've been talking a lot this

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2375 morning about private interests and I don't think we've been
2376 hearing enough thought and consideration to foreign
2377 governments.

2378 Are any of you aware of any interests by foreign
2379 governments in leasing the underutilized storage space here
2380 in the U.S. and if you want to -- what's the potential for --

2381 Mr. Rusco. We spoke with representatives from Australia
2382 and New Zealand, both of whom have an interest in leasing oil
2383 and space in the SPRO, and they have actually spoken with DOE
2384 about this in the past.

2385 Mr. Rush. Is there any -- just those two nations?

2386 Mr. Rusco. Yes, but I --

2387 Mr. Rush. Do you see any potential for other similarly
2388 situated foreign governments?

2389 Mr. Rusco. I would be surprised if there are no other
2390 governments that are interested because of the differential
2391 cost. A lot of countries are storing oil and product in
2392 tanks and if you can store oil in a salt dome it's much
2393 cheaper, and so I would assume that there would be additional
2394 interest.

2395 Mr. Rush. Thank you, Mr. Chairman. I yield back.

2396 Mr. Olson. Thank you, and seeing no further members
2397 wishing to ask questions, I would like to thank our witnesses
2398 for coming today, and before you leave, Mr. Evans, one

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2399 special tie we have together, we have the Fluor tie but I
2400 just found out my dad was a Fighting Siwash. Knox College
2401 played football there '56 through '60.

2402 Mr. Evans. Are you kidding me? That is absolutely
2403 amazing, Mr. Olson.

2404 Mr. Olson. No prairie fire. Siwash, Siwash, Siwash.

2405 Mr. Evans. Siwash is -- when I was at Knox, which is a
2406 terrific institution, we were the Fighting Siwash and I've
2407 never, fortunately, given that up. That's so amazing.

2408 Mr. Olson. Mr. Rush knows that's in Galesburg, Illinois
2409 -- Knox College.

2410 Mr. Evans. Galesburg. Grew up in Illinois and went to
2411 school there and my family has lived there since the 1850s.
2412 So Knox is a terrific institution. Thank you for that.

2413 Mr. Olson. Yes, sir. Yes, sir.

2414 And before we conclude, I ask unanimous consent to
2415 submit the following documents to the record: a report by
2416 GAO and a report from the Center on Global Energy Policy.

2417 [The information follows:]

2418

2419 *****COMMITTEE INSERT 7*****

2420 And pursuant to committee rules, I remind members that
2421 they have 10 business days to submit additional questions for
2422 the record and I ask that the witnesses submit their
2423 responses within 10 business days upon receipt.

2424 Without objection, this subcommittee is adjourned.

2425 Go Siwash.

2426 [Whereupon, at 12:35 p.m., the committee was adjourned.]