



441 G St. N.W.
Washington, DC 20548

September 24, 2018

The Honorable Fred Upton
Chairman
Subcommittee on Energy, Committee on Energy and Commerce
House of Representatives

Strategic Petroleum Reserve: Post-hearing Question

Dear Mr. Chairman:

At the hearing entitled “DOE Modernization: Legislation to Authorize a Pilot Project to Commercialize the Strategic Petroleum Reserve” on July 24, 2018 before the Subcommittee on Energy, GAO agreed to provide additional information for the record. The enclosure is GAO’s response to the subcommittee’s question for the record. If you have questions, you may contact me on (202) 512-3841 or at [REDACTED]

Sincerely yours,

[REDACTED]

Frank Rusco
Director
Natural Resources and Environment

Enclosure

cc: The Honorable Bobby L. Rush, Ranking Member, Subcommittee on Energy

Question for the Record

- 1. You mentioned that \$2 billion from the sale of crude oil from the SPRO is authorized for the modernization program. Has this been implemented, in your opinion, effectively so far and do you have a status update on the use of these funds?**

According to the Department of Energy (DOE), the Strategic Petroleum Reserve (SPR) modernization program is focused on a life extension project to modernize aging infrastructure to ensure the SPR will be able to meet its mission requirements for the next several decades. The Bipartisan Budget Act of 2015 provided for the drawdown and sale of a total of 58 million barrels of crude oil from fiscal years 2018 through 2025 and authorized the sale of up to \$2 billion worth of oil, with the proceeds to be deposited in an Energy Security and Infrastructure Modernization Fund, the purpose of which is to provide for the construction, maintenance, repair, and replacement of SPR facilities.¹

Though we have not examined whether DOE has effectively implemented this modernization program, we have reported on the challenges involved in modernizing the SPR in the face of ongoing uncertainty regarding the SPR's long-term size and configuration.² DOE has estimated the total cost for the SPR's modernization at up to \$1.4 billion. DOE raised about \$323 million for modernization through the sale of SPR oil in fiscal year 2017, and the Consolidated Appropriations Act of 2018 provided that DOE is to draw down and sell an amount of crude oil not to exceed \$350 million for modernization in fiscal year 2018.³ As of the end of February 2018, DOE had spent \$22 million on modernization efforts and the additional funds were to allow DOE to continue moving forward with the project, according to agency officials. According to DOE's modernization plans, the first major construction is scheduled for fiscal year 2019.

The scope of the life extension project for SPR's modernization has undergone several revisions since its inception in response to changing conditions and requirements, according to DOE. However, as we reported in May 2018, DOE's plans were largely based on information DOE analyzed before recent congressionally mandated sales of an additional 117 million barrels of oil.⁴ We found that, as DOE takes steps to plan for the SPR's modernization, ongoing uncertainty regarding the SPR's long-term size and configuration has hampered DOE's efforts. According to DOE officials, this uncertainty makes it extremely difficult to effectively perform any mid-to long-range planning efforts for the SPR's modernization. As we reported in May 2018, since 2015 Congress has,

¹Pub. L. No. 114-74, §§ 403, 404, 129 Stat. 584, 589 (2015).

²GAO, *Strategic Petroleum Reserve: DOE Needs to Strengthen Its Approach to Planning the Future of the Emergency Stockpile*, GAO-18-477 (Washington, D.C.: May 30, 2018).

³Pub. L. No. 115-141, Div. D, Tit. III (2018). The act further provides that, as authorized by section 404 of the Bipartisan Budget Act of 2015, the proceeds from such drawdown and sale shall be deposited into the Energy Security and Infrastructure Modernization Fund.

⁴GAO-18-477.

across six pieces of legislation, mandated 290 million barrels in oil sales. However, DOE developed its modernization plans in 2016. DOE officials told us they do not know whether additional sales will be mandated over the next 10 years or whether other changes may be required to the configuration of the reserve. Any additional congressionally mandated sales would require DOE to again revisit its modernization plans and assessments of the potential uses of any excess SPR assets.