

# FROM SCARCITY TO ABUNDANCE

## WHY THE STRATEGIC PETROLEUM RESERVE IS UNNECESSARY

### WHY DOES AMERICA NO LONGER NEED THE STRATEGIC PETROLEUM RESERVE?

The Strategic Petroleum Reserve (SPR) was authorized in the 1970s under Nixon-era price controls. The US crude oil marketplace of 40 years ago bears no resemblance to today's 21st century market.

US crude oil production has nearly doubled since 2008, rising from 5.0 million barrels per day (MMB/D) to 9.5 MMB/D today. These domestic supply gains are a direct result of technological breakthroughs in horizontal drilling and advanced well completion techniques. Over the same period, improved energy efficiency has reduced US demand growth. These combined factors have fueled a paradigm shift in our country from energy "scarcity" to energy "abundance."

America recently passed both Saudi Arabia and Russia to become the world's largest producer of liquid fuels. US crude oil is produced from an estimated 1.1 million wells across the country. The wide geographic distribution of these producing properties reduces the overall national impact of local or regional supply disruptions due to weather events, mechanical failures or hostile acts. Domestic petroleum supplies are more secure than foreign imports.

### WHAT IS THE INTERNATIONAL ENERGY AGENCY OBLIGATION?

As a member country of the International Energy Agency (IEA), the US has a minimum petroleum reserve obligation (combined public and private stocks) equal to its average daily net imports of the previous calendar year x 90. US crude oil and petroleum product imports peaked in 2005 at 13.7 MMB/D. US net petroleum imports fell to 5 MMB/D in 2014, making America's 2015 minimum stock level obligation as an IEA member country 450 MMB.

Current\* US stock levels of 1,942 MMB (public: SPR 693 MMB crude, 1 MMB gasoline, 1 MMB heating oil; private: 1,247 MMB) are more than 4 times greater than the IEA requires. Even if the Department of Energy were to sell 100% of the barrels in its various SPRs to monetize the assets, the US would still exceed its IEA petroleum inventory obligations by a multiple of 2.7 using only private sector stocks.

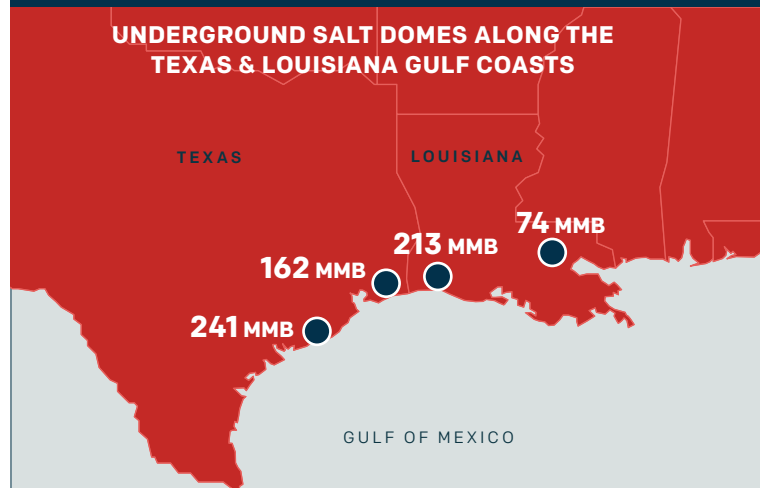
\*Week ending 6/19/15 EIA US Petroleum Balance Sheet

### WHY MUST THE SPR AND CRUDE EXPORTS BE TIED TOGETHER?

While the SPR is being looked at as an asset to fund critical infrastructure improvements, it must be noted that to gain the most value and to fund as much infrastructure as possible, the sale of these assets will need to occur on the world market. According to the U.S. Energy Information Administration, the discount of U.S. prices to world prices is expected to increase up to \$15 a barrel if the export ban is not lifted. In addition, without the sale of crude exports, the sale of SPR, regardless of rate and term, would be detrimental to our domestic production industry by flooding our markets and reducing the price received for all oil sales in the U.S.

### STRATEGIC PETROLEUM RESERVE FACTS

#### UNDERGROUND SALT DOMES ALONG THE TEXAS & LOUISIANA GULF COASTS



TOTAL CAPACITY	<b>727 MMB</b>
CURRENT CRUDE OIL INVENTORY	<b>693 MMB</b> [95.4% of capacity]
SOUR CRUDE	<b>429 MMB</b> [62%]
SWEET CRUDE	<b>264 MMB</b> [38%]
MAXIMUM NOMINAL DRAWDOWN CAPABILITY	<b>4.4 MMB/D</b>
AVERAGE PRICE PAID FOR OIL IN THE SPR	<b>\$29.70 PER BARREL</b>