



CHRON. Op-Ed by Ernest J. Moniz

Moniz: We need a modernized strategic reserve, not a smaller one

By Ernest Moniz

In late 2015, the Congress found that the Strategic Petroleum Reserve was, "one of the nation's most valuable energy security assets." Why would the Trump Administration conclude, just a little over a year later, that the SPR is not so valuable after all?

The rationale for the administration's current budget recommendation - selling off more than half of the SPR's current inventory, shutting down two of four storage sites in Texas and Louisiana, and eliminating the Northeast Gasoline Reserve - was supported by Energy Secretary Rick Perry in congressional testimony last month.

That rationale, however - that we are producing a lot more domestic oil so we can close SPR sites - appears to be grounded in a view of oil markets in 1973. The SPR - its value to domestic and global energy security, U.S. consumers and our economy - needs to be viewed instead through the lens of the dramatic changes that have taken place in the last 40 years.

First, while it's true that domestic oil production has substantially increased, key oil data then were not dramatically different than now. In 1973, daily crude and oil product net imports were about 6 million barrels and in 2016 they were about 5 million; consumption back then was 17 million barrels per day and today, it is about 19 million (for a population that has grown by 50 percent).

Second, there was no global oil market 40 years ago. The WTI futures contract had been introduced just a few years earlier, and federal price controls discouraged surplus domestic production capacity. These market features virtually ensured that the OPEC oil embargo of 1973-74 would have an outsized impact on U.S. oil - and gasoline - prices. Today, oil prices are deregulated, and spot cargoes move around the globe. Futures contracts, options and swaps help manage risk, establish links between markets and physical product, and provide flexibility for buyers and sellers. These features and instruments lessen the risks of physical disruptions and provide industry and consumers with enormous benefits.

Third, our crude oil and product imports and exports link us to global oil markets. Even with no net imports, when global prices spike, ours will, too. World GDP growth fell from 4 percent to 2 percent after prices spiked in 1999-2000. On the flip side, using the SPR provides benefits to the U.S. economy. After an announced swap of 30 million barrels of SPR oil in 2000 when spare capacity was tight and heating oil inventories were low, oil prices immediately dropped by more than 20 percent. A Department of Energy Report estimated that maintaining and modernizing the SPR to meet current statutory requirements would yield consumer and economic benefits of over \$300 billion to the U.S. through 2040.

Fourth, much of the increase in U.S. unconventional oil production is occurring in unconventional locations such as North Dakota. This has reversed traditional pipeline flows; crude oil is now moving from north to south into the Gulf of Mexico where the SPR's storage and

distribution systems and 60 percent of the nation's refining capacity are located. The result is a congested system in which SPR oil released in an emergency could be displacing commercial oil volumes, not providing much-needed incremental oil to the marketplace. Infrastructure upgrades are called for.

Finally, reserves in the ground can't provide us oil we need in an emergency disruption - increased domestic production does not equate to emergency surge capacity. Also, oil production in the U.S. is in the hands of the private sector. Industry rightly cares about production schedules, contracts and making money (which it does when prices spike), not about maintaining expensive surplus capacity for emergency disruptions; this is - and appropriately so - the role of the federal government and the SPR.

The law establishing the SPR was passed in 1975, a policy response focused largely on physical disruptions.

The law, however, included an important - and prescient - role for the SPR, relevant to today's marketplace: preventing significant harm to the U.S. economy from oil disruptions.

The SPR plays a key role in the international response during an emergency, as the U.S. is obligated to meet over 40 percent of the total global release of strategic stocks. Rapidly putting large volumes of oil from the SPR onto the water and into global markets mitigates the harmful impacts of price spikes on the global economy.

Congress recognized as much when, in 2015, it authorized \$2 billion to expand and modernize the SPR's distribution system and build new terminals. Robust modernization would create thousands of jobs; anemic modernization of only two sites, while shutting down the other two, would reduce them.

After four mandated oil sales from the SPR - one for its own modernization, another for budget balancing and two for funding unrelated programs - enough is enough. We should support the view of Congress that the SPR is one of our most valuable security assets. In today's world of changed markets, unrest, and collective energy security responsibilities, we should be modernizing the SPR, not selling it off.

Former US energy secretary Ernest J. Moniz is founder and CEO of the Energy Futures Initiative. Melanie A. Kenderdine, former founding director of the Energy Policy and Systems Analysis Office at the Department of Energy during the Obama administration, is principal and executive vice president of the Energy Futures Initiative

<https://efifoundation.org/wp-content/uploads/sites/3/2024/02/CHRON.Op-Ed-Moniz-July-2017.pdf>