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Fossil Energy Petroleum Accounts: FY2021 Appropriations

Introduction

In February 2020, the U.S. Department of Energy (DOE) submitted to Congress its FY2021 Budget Request, including appropriations for the Fossil Energy Petroleum Accounts. These accounts (**Figure 1**) consist of three energy security programs: the Strategic Petroleum Reserve (SPR), Northeast Home Heating Oil Reserve (NEHHOR), and the Naval Petroleum and Oil Shale Reserve (NPOSR). The Office of Petroleum Reserves, within the Office of Fossil Energy, manages these accounts.

Strategic Petroleum Reserve

The SPR, authorized by the Energy Policy and Conservation Act (P.L. 94-163) in 1975, consists of a stockpile of crude oil kept in caverns built within naturally occurring salt domes in Louisiana and Texas. The SPR is the U.S. emergency stockpile of crude oil, providing strategic and economic security against foreign and domestic disruptions in U.S. oil supply. The program provides a deterrent against energy supply disruptions and fulfills U.S. obligations under the International Energy Program agreement, which avails the United States of International Energy Agency (IEA) assistance through its coordinated energy emergency response plans.

According to DOE data from June 3, 2020, the SPR held 647.8 million barrels of crude oil. According to its FY2021 Budget Justification, DOE is requesting approximately $187 million in appropriations for Facilities Development and Operations ($159.2 million) and for Management of SPR Operations ($27.9 million).

Northeast Gasoline Supply Reserve

A component of the SPR, the Northeast Gasoline Supply Reserve (NGSR) consists of 1 million barrels of government-owned refined petroleum products (gasoline blend stock) in storage in the Northeast. Former Secretary of Energy Ernest Moniz, under direction of President Obama, authorized the creation of the NGSR in 2014, in response to the gasoline shortage following Superstorm Sandy in 2012.

The NGSR was fully funded through FY2017 by proceeds from a 2014 SPR test sale. DOE's FY2021 budget request, similar to the FY2020 request, does not request appropriations for the NGSR. It instead seeks to dissolve the program and sell the 1 million barrels of gasoline blend stock. DOE would deposit the proceeds from the NGSR sale into the SPR Petroleum Account.

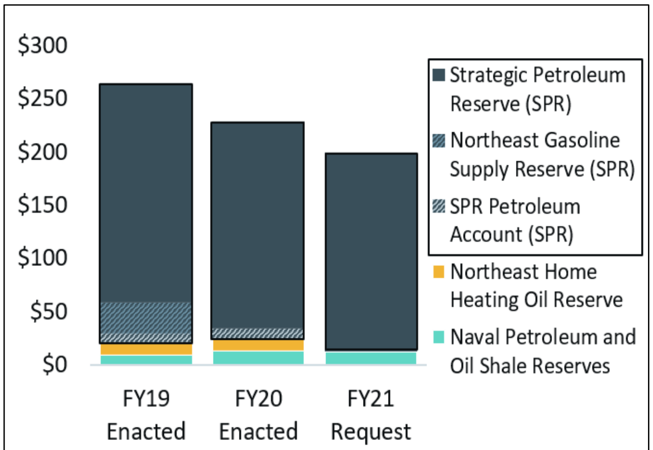
SPR Petroleum Account

The SPR Petroleum Account "funds SPR petroleum acquisition, transportation, and drawdown activities." As noted, DOE is requesting to eliminate the NGSR and sell its contents. DOE would deposit up to $19 million in proceeds from the proposed sale into the SPR Petroleum Account. DOE would use the funds to cover costs associated with congressionally directed sales of crude oil from the SPR.

DOE can also use appropriations in the SPR Petroleum Account to purchase crude oil to fill the SPR. Statute (42 U.S.C. §6240) identifies the various objectives, procedures, and other authorities for the Secretary of Energy to acquire crude oil for the SPR. The Secretary may acquire petroleum products through purchase or exchange. For purchases, Congress must appropriate funds to the SPR Petroleum Account.

Figure 1. Requested and Appropriated Fossil Energy Petroleum Accounts Funding, FY2019-FY2021

$ in Millions



Source: U.S. Department of Energy, *FY2021 Congressional Budget Request, Budget in Brief*, Office of the Chief Financial Officer, February 2020, p. 30.

Notes: Does not include offsets. The Strategic Petroleum Reserve, Northeast Gasoline Supply Reserve, and SPR Petroleum Account are all components of the Strategic Petroleum Reserve security program.

Northeast Home Heating Oil Reserve

In response to the near doubling of heating oil prices in some Northeastern states during the winter of 1999-2000, Congress authorized the 2 million barrel Northeast Home Heating Oil Reserve (NEHHOR) in the Energy Act of 2000 (P.L. 106-469). NEHHOR is not part of the SPR, but is a separate reserve with its own criteria for release. As an emergency stockpile of government-owned heating oil, Congress intended NHHOR to contain roughly 10 days (the time required for ships to transport heating oil from the Gulf of Mexico to the New York Harbor) worth of demand by the Northeastern states at the time. The first emergency use of NEHHOR was in 2012 in response to Superstorm Sandy.

For FY2021, DOE is requesting to dissolve the NEHHOR and to sell the entirety of the reserves—one million barrels of ultra-low sulfur distillate. DOE would eliminate the NEHHOR on the grounds that it "has never been used for its intended purpose ... and the reserve is not a good use of taxpayer funds."

Naval Petroleum and Oil Shale Reserves

Created through a series of Executive Orders in the early 1900s, the Naval Petroleum and Oil Shale Reserves (NPOSR) secured an emergency supply of crude oil for U.S. naval vessels. As the national defense needs changed, Congress opened the oil reserves to private production and eventually sold them. Since a 1998 sale, NPOSR manages five legal agreements for the Naval Petroleum Reserve 1 (NPR-1) in Elk Hills, California. DOE continues to resolve NPR-1 environmental findings as required by a 2008 agreement with California's Department of Toxic Substances Control. DOE has been responsible for remediation and environmental cleanup for 131 areas of concern. As of January 2020, 29 areas of concern continue to require remediation.

DOE is requesting a total of $13 million in the FY2021 Budget Request to address the 29 remaining areas of concern. Furthermore, DOE is requesting a sale of 15 million barrels of SPR crude oil to provide additional funding that would include $242 million needed to complete the remediation work at the NPR-1 site.

Considerations for Congress

SPR Petroleum Account

For the FY2021 budget, Congress may consider appropriations to the SPR Petroleum Account. DOE's budget request seeks to use funds from the sale of the NGSR to deposit into the SPR Petroleum Account. The SPR Petroleum Account funds are used not only to purchase crude oil, but also to transport crude oil in and out of the reserve because of test sales, exchanges, emergency releases, and congressionally directed sales.

Global oil prices declined nearly 60% between January and mid-April 2020, because of a number of factors. While low oil prices are generally positive for consumers (translating into lower gasoline prices) and oil refiners (translating into lower costs), sustained low prices could result in financial stress for companies operating in the U.S. oil exploration and production sector. At the direction of President Trump, DOE issued a solicitation to purchase an initial 30 million barrels of crude oil as part of a plan to acquire 77 million barrels. However, on March 25, 2020, DOE cancelled this solicitation, noting, "Given the current uncertainty related to adequate Congressional Appropriations for crude oil purchases associated with the March 19, 2020 solicitation, the Department is withdrawing the solicitation. Should funding become secure for the planned purchases, the Department will reissue the solicitation."

Since the cancellation, DOE has issued two other solicitations, one for an exchange of storage and one trial purchase. DOE would fund the associated costs of these activities, and the actual purchase of crude oil, with the SPR Petroleum Account. DOE would also use funding from the SPR Petroleum Account for transport activities from the sale of crude oil previously directed by Congress.

Dissolving the NGSR and the NEHHOR

Congress may consider approving the elimination of both the NGSR and the NEHHOR. Once funds from the 2014 SPR test sale were expended, DOE began requesting to dissolve the NGSR. DOE contends that the NGSR has never been utilized and that it is not economic. According to DOE, operating the NGSR as a regional product reserve is challenging. The NGSR is a component of the SPR and therefore follows SPR statutory release authorities that require national impact thresholds. While the NEHHOR release arguably demonstrated the utility of maintaining a distillate stockpile, it was the result of a natural disaster, not a market-based heating oil supply shortage, which was the original purpose of the program.

DOE further contends that storing refined petroleum products, versus crude oil, can be more expensive and more difficult to maintain. Comparatively, refined petroleum products degrade more quickly; are less flexible to respond to market fluctuations; and are subject to changes in environmental regulations. For example, to meet new Northeast states' emission standards, in FY2012, DOE converted the NEHHOR's 2 million barrels of high sulfur heating oil to 1 million barrels of ultra-low-sulfur distillate.

Others, such as the Government Accountability Office (GAO), contend that there may be certain advantages to maintaining refined petroleum product reserves. GAO notes consumers directly use refined products and thus a reserve reduces the time otherwise needed to refine crude oil to get the product to consumers in an emergency. Furthermore, in 2018 testimony before the Subcommittee on Energy, House Committee on Energy and Commerce, GAO noted DOE's 2015 Quadrennial Energy Review did not fully complete a number of studies that would provide information on the net economic benefits of regionally based refined petroleum product reserves. In May 2018, GAO recommended that these studies be completed; however, DOE disagreed.

Other CRS Products

CRS Report R46384, *Energy and Water Development: FY2021 Appropriations*, by Mark Holt and Corrie E. Clark

CRS Report R46355, *The Strategic Petroleum Reserve: Background, Authorities, and Considerations*, by Heather L. Greenley

CRS Insight IN11373, *Strategic Petroleum Reserve: Recent Developments*, by Phillip Brown

Heather L. Greenley, Analyst in Energy Policy

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