U.S. DEPARTMENT OF ENERGY

Northeast Home Heating Oil Reserve (NEHHOR)

Sale Implementation Plan

Office of Petroleum Reserves
United States Department of Energy
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THE NORTHEAST HOME HEATING OIL RESERVE SALE IMPLEMENTATION PLAN

INTRODUCTION:

The Department of Energy (DOE) maintains a regional distillate reserve in the Northeast, known as the Northeast Home Heating Oil Reserve (NEHHOR). The currently authorized size of the Reserve is one million barrels of Ultra Low Sulfur Diesel (ULSD) Heating Oil. Storage facilities consist of 300,000 barrels located in Port Reading, New Jersey; 300,347 barrels located in New Haven, Connecticut; 200,000 barrels located in Chelsea, Massachusetts: and 200,000 located in South Portland, Maine. In the event the President should make a finding of a "severe energy supply interruption," as defined by the Energy Policy and Conservation Act (EPCA) (P.L. 94-163, as amended), the Department of Energy would sell and distribute some or all of the heating oil contained in the Reserve. This is the Department's proposed plan for selling and distributing the oil.

I. BACKGROUND:

The Energy Act of 2000 (Public Law 106-469), enacted on November 9, 2000, amended EPCA and authorized the Secretary of Energy "to establish, maintain, and operate in the Northeast a Northeast Home Heating Oil Reserve," containing no more than one million barrels of petroleum distillate. Under the law, the Northeast Home Heating Oil Reserve is not a component of the Strategic Petroleum Reserve (SPR). On March 6, 2001, the Secretary of Energy formally announced the permanent establishment of the Reserve, separate from the Strategic Petroleum Reserve.

EPCA provides two bases for the discretionary release of oil from the NEHHOR. The Secretary may release the oil from the Reserve only upon a finding by the President that a severe energy supply interruption exists. Such a finding is made if it is determined that a dislocation in the heating oil market has resulted from the interruption or that a circumstance exists resulting in a significant regional supply shortage that could be ameliorated by the release of the oil. The definition of a dislocation in the heating oil market is specified in the law.

II. SALES METHOD:

The Department considered a number of alternative strategies for the sale of the heating oil in the Reserve. Should the President order a drawdown of the Reserve, the Secretary may sell the oil competitively by email auction. Standard Sales Provisions are posted on the Office of Petroleum Reserves (OPR) web page for the Northeast Home Heating Oil Reserve.

Under the competitive sales process, applicants will submit bids over a specified time period via the guidance from the Office of Petroleum Reserves web page. At the close of the offering, contract awards will be confirmed to successful bidders. Public announcement of the sale results will occur slightly later. In order to react as quickly as possible to an emergency situation, the DOE anticipates that the sales portion of the process will be completed in no more than two days.

A. Registration:

Companies or individuals interested in bidding on the reserve may refer to the guidance via the Office of Petroleum Reserve web page for the Northeast Home Heating Oil Reserve. Public notifications will be made by the Department of Energy when the Presidential announcement has been made and the Notice of Sale is issued.

B. Sales Notification and Schedule:

Immediately following a finding by the President to draw down the NEHHOR, the Department will issue a Notice of Sale (NS) and provide public announcements. The notice will be posted on the OPR web site and specify the amount, characteristics and location of the heating oil to be sold, procedures for submitting bids and the delivery period. Receipt of bids will begin as specified in the online posting.

Under the most likely scenario, the bidding will open the day after the NS is posted. The platform will be open for 2-3 hours and close at approximately noon Eastern Time.
Potential buyers will submit bids based on the Department's guidance via the OPRweb site. Bids will be anonymous to other bidders and will specify the quantity, location and price expressed as a premium to the New York Mercantile Exchange (NYMEX) near month closing price for ULSD heating oil on the day of the bidding. Companies may submit multiple bids. The most recent bid will be the bid used for review and competition for the NEHHOR purchase. A bidder must provide a financial guarantee of $250,000 by electronic transfer to the location designated by the NS prior to submission of their bids. The Department of Energy will verify the guarantee receipt with the Department of Treasury. The financial guarantee must be received by the time specified in the NS.

Following the auction close, contract award will be confirmed by the Department of Energy. Public announcement of companies with winning bids will occur the same day after the close of the NYMEX. Financial guarantees will be returned to unsuccessful bidders in five days.

A typical schedule for an online auction of the NEHHOR might be:

Day 1	Presidential Finding. Public notification. Post Notice of Sale. Begin receipt of financial guarantees.
Day 2	
10:00 a.m.	Open email bidding.
Noon	Close email bidding. Evaluation of bids.
2:30 p.m.	Post NYMEX close public announcement of successful bidders.

C. Volumes Offered, Purchaser Volume Restrictions:

The NS will specify the maximum quantities to be sold from each terminal location and maximum quantity award restrictions per company. The Department will determine the total volume of heating oil to be offered based on market conditions at the time of the sale. Bids must be expressed in multiples of 50,000 barrels. Multiple bids may be submitted, but no one company will be awarded more than 40 percent of the heating oil offered. This limitation is intended to prevent any potential for a monopoly position in the resale of the oil. The Department reserves the right to limit the total volume awarded based on the reasonableness of the bids (including not awarding any sales contracts).

A public briefing may be provided to interested firms prior to the NS being posted online. This briefing will explain to the firms how a bid is submitted.

D. Payment:

Petroleum product from the NEHHOR will be delivered on a prepaid basis only. The buyer will be required to remit payment to the Government within 48 hours following notification of award, or prior to taking delivery if less than 48 hours. The bid financial guarantee may be applied toward this payment. A failure to prepay may result in the Government selling the product to another party and forfeiture of the bid guarantee.

III. DISTRIBUTION PLAN:

The distribution plan for petroleum products from the NEHHOR is based on maximum use of the commercial terminal infrastructure and industry procedures in place, since the greatest potential for efficient and expeditious distribution of the petroleum product stocks rests with the industry performing these functions.

Under the Government's storage contracts, the terminals have the responsibility to:

- provide inventory management and quality control of the Government's stocks;
- provide full availability of the Government's product in the event of a release;
- provide the capability to deliver all the Government's product within 10 days on a 24 hour notice; and
- provide the capability to distribute product by tanker/barge and truck facilities.

Distribution:

The NEHHOR product will be sold and delivered to the buyer F.O.B. the terminals specified in the NS. The ownership of the heating oil will be transferred to the buyer at the terminal, and the buyer will assume full responsibility for distribution arrangements.
Subject to limitations of the terminal, buyers will be able to ship heating oil by ship, barge, and/or truck. Descriptions of the available distribution capabilities for each terminal can be found in the Terminal Data Appendix of the Distribution Plan.

The buyer of the heating oil will be responsible for all transportation arrangements and costs. Should the DOE sell the ULSD un-dyed across a Storage Contractors truck rack, all required federal excise taxes under IRS Publication 510 will be the responsibility of the Storage Contractor. Payment of excise taxes must be coordinated between the Storage Contractor and the Purchaser. Federal excise tax paid should be reflected on the Bill of Lading; DOE assumes no responsibility for the collection or payment of excise taxes. Within 24 hours of being awarded a heating oil contract by the Department, the buyer must advise the Department and the terminals of the desired delivery mode(s) and respective volumes. The buyer must make arrangements to have delivery of their heating oil take place within ten days of award.

Vessel and barge nominations and assignment of lifting windows must be in accordance with the terminals' scheduling procedures. Truck liftings will be subject to terminal capacities and restrictions.