Transition Team Question #2

Q: What is the policy, who determines, what is the process for determining what crude type and amount should be stored in the fill?

- **Deliverable: Provide the basis for the policy decision on the crude type for SPR fill.**

A: Policy Decision on Crude Type for SPR Fill

Overall fill direction comes from Congress and the Administration, but the details of crude oil quality and proportions of each type stored are determined by the Office of Petroleum Reserves.

Congressional and Administration Direction

· In 2001, President Bush directed the resumption of royalty-in-kind transfer from Department of Interior to fill to then-existing capacity of 700 million barrels to enhance U.S. national and energy security.

· The **Energy Policy Act of 2005** directed SPR fill to the authorized one billion barrel capacity as expeditiously as practicable without incurring excessive costs or appreciably impacting the price of petroleum products to consumers.

· In 2007, President Bush asked Congress to double the size of the SPR (to 1.5 billion barrels) to further protect America against disruptions to our oil supply.

Office of Petroleum Reserves Determination

· Oil initially purchased for the SPR was chosen to represent the crudes being processed by U.S. refineries. DOE specified in the SPR Plan, submitted to Congress in January 1977, that 40 percent of the inventory would be light, low sulfur crude (< 0.5 percent Sulfur) and 60 percent of the inventory would be a light, medium sulfur crude (1.0-1.9 percent Sulfur).

· Since the 1977, the Office of Petroleum Reserves has reviewed the SPR crude mix on several occasions. These SPR crude mix studies included the analysis of refinery capabilities and economics, product demands, import patterns, market availability and prices, and SPR site configurations and costs.

· In 2005, the SPR conducted a comprehensive Crude Compatibility Study of the current SPR crude oil streams. In general, the crudes currently stored in the SPR are compatible and desirable for the majority of the U.S. refineries and are well suited to mitigate most supply disruptions. There are, however, 11 refineries which have been specifically configured for processing heavy crude largely from Latin America that would be impacted in the event of a disruption of foreign

crude supplies. However, they would still be able to process a limited quantity of SPR crude and maintain their full production of gasoline.

· To address the potential compatibility issues of the eleven heavy crude refiners and provide full protection for the Nation for all disruption scenarios, the SPR has stated in the Crude Compatibility Study, it will be giving consideration to the storage of some volumes lower gravity crude in the planned expansion of the SPR to 1.0 billion barrels.