Congress Drills for More Revenue in Petroleum Reserve

Lawmakers are increasingly relying on oil sales to pay for a range of policies, including the GOP tax bill.

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Congress has found a new favorite source for cash to offset spending for a wide range of policies—the Strategic Petroleum Reserve.

The Senate tax bill, set for a final vote late Thursday or early Friday, would sell off a modest 5 million barrels of crude oil housed at the reserve.

Congress has tapped larger sales, however, to fund health, transportation, and budget initiatives over the past two years. That trend is sparking a renewed conversation about the value of the reserve, a set of grottos on the Gulf Coast that store hundreds of millions of barrels of crude.

Some lawmakers and energy experts are sounding alarm bells, while others say increased U.S. energy production and portfolio diversification are rendering the reserve nearly obsolete.

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"I've never believed that we should use our Strategic Petroleum Reserve as anything other than a Strategic Petroleum Reserve," Sen. Lisa Murkowski, the chairman of the Senate energy panel, said. "It shouldn't be an ATM."

Congress established the reserve in the wake of the 1973-74 Arab oil embargo. The U.S. and other International Energy Agency member countries maintain reserves to cushion market disruptions. The U.S. has only sold off roughly 97 million gallons since the reserve received its first shipment in 1977, the Energy Department says.

The 5-million-gallon sell-off in the tax bill is used to create budget space to raise Gulf state shares of oil production revenue. That portion of the tax bill is tacked onto a measure to open up oil drilling in the Arctic National Wildlife Refuge, a sanctuary for flora and fauna that Democrats and environmental groups are working tirelessly to keep out of the reach of energy companies.

Those sales are set to take place in fiscal 2026 and 2027. Louisiana law compels state officials to use oil revenue to clean up the Gulf Coast and strengthen it against extreme weather. The revenue-sharing and reserve drawdown provision passed out of committee with all Republicans and Sen. Angus King, a Maine independent who caucuses with Democrats, voting in favor.

"I have some concerns but they're outweighed by the tragedy that is occurring on the coast of Louisiana," King said. "We now have dramatically more oil production and capacity in the United States than we did at the time [the reserve] was established. I'm not saying it should be drawn down entirely but I think it's appropriate to at least consider it when there are other priorities."

Hurricanes and the 2010 British Petroleum oil spill have wreaked havoc on the state's coast.

The Energy Department is also slated to sell nearly 150 million gallons over the next decade. That would bring the total crude-oil repository down from 695 million gallons to roughly 540 million.

Despite the modest sell-off in the tax bill, some reserve proponents are signaling distress.

"It's an insurance policy," said Jason Bordoff, a former senior energy adviser to President Obama and now the director of Columbia University's Center on Global Energy Policy. "People in the energy world who pay attention to this stuff, many of them, are concerned about the trend in Congress to turn to the SPR and sell it off."

The tax sell-off is triggering concern with at least one Louisiana representative. Rep. Garret Graves, a Republican who previously served as Louisiana's Chairman of the Coastal Protection and Restoration

Authority, said the spate of sales is risky policy.

“If we keep saying ‘it’s just 5 million barrels, it’s just 8 million barrels,’ if we continually do this, I’m just concerned about that trend. The cumulative effect is serious,” he said. Graves is a staunch proponent of boosting revenue-sharing for Gulf states in the Gulf of Mexico Energy Security Act.

The law now caps oil revenue at $500 million shared among Texas, Mississippi, Alabama, and Louisiana, but the tax bill would raise that ceiling to $650 million for fiscal 2021 and 2022. Graves said the raise is irrelevant because the Gulf states won’t hit that mark, but a Cassidy spokesman said the states are projected to exceed the cap in fiscal 2019.

Asked if the reserve drawdown is a concern to Cassidy, his spokesman, Matt Wolking, said the 695-million-gallon storage represents 143 days of import protection, adding that that length of time is the longest in the reserve’s history. The window, however, doesn’t account for the slated sales.

The tax bill limits the 5-million-gallon sale to $325 million. The current price of oil is less than $60 per barrel.

But for all the voices of concern about drawdown, some experts in the field, even former staunch supporters, say the reserve no longer plays a critical national security role. “We bought a 747 to help us out, and now what we need is one of those small commuter jets,” said Philip Verleger, who helped create the reserve as a senior government official in the 1970s. “It’s a great idea but it has never worked.”

Verleger said U.S. officials have never been nimble enough to use the reserve effectively in times of market crisis. Many observers fault U.S. officials for failing to properly update the reserve. Some have argued it needs to house refined product in order to quickly intervene in the market during appropriate times.

Debate over the reserve’s value will continue. Murkowski, meanwhile, said her ANWR measure, which would open up an area known as “1002,” will provide a potential boon to the reserve.

“When we are able to finally open up a small portion of the 1002 area and put a million barrels of oil a day moving through that, we will be able to fill up our Strategic Petroleum Reserve pretty readily,” she said.

Some environmental and business groups alike express skepticism that producers will be interested in developing the remote ANWR oil, due to infrastructure challenges and low market prices.

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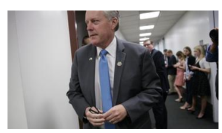

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