

DEPARTMENT OF ENERGY
FY 2002 CONGRESSIONAL BUDGET REQUEST

STRATEGIC PETROLEUM RESERVE
(INCLUDING TRANSFER OF FUNDS)

Proposed Appropriation Language

For necessary expenses for Strategic Petroleum Reserve facility development and operations and program management activities pursuant to the Energy Policy and Conservation Act of 1975, as amended (42 U.S.C. 6201 et seq.), [165,000,000] 169,009,000 to remain available until expended, [of which \$4,000,000 shall be derived by transfer of unobligated balances of funds previously appropriated under the heading “SPR Petroleum Account”, and] of which \$8,000,000 shall be available for maintenance of a Northeast Home Heating Oil Reserve.

DEPARTMENT OF ENERGY
FY 2002 CONGRESSIONAL BUDGET REQUEST
STRATEGIC PETROLEUM RESERVE
(Tabular dollars in thousands, Narrative in whole dollars)

PROGRAM MISSION

The Strategic Petroleum Reserve (SPR) was created by the Energy Policy and Conservation Act of 1975 (EPCA) to provide the United States with adequate strategic and economic protection against disruptions in oil supplies. The SPR Program was established as a 750 million-barrel (MMB) capacity crude oil reserve with storage in large underground salt caverns at five sites in the Gulf Coast area, connected to major private sector distribution systems, and maintained to achieve full drawdown rate capability within fifteen days of notice to proceed. Storage capacity development was completed in September 1991 providing the capability to store 750 million barrels of crude oil in underground caverns ready to deploy at the President's direction in the event of an emergency. As a result of the decommissioning of the Weeks Island site in 1999, the Reserve lost 70 million barrels of capacity. However, the Department has reassessed the capacities of the remaining storage sites and estimates they are currently capable of storing 700 million barrels. This increase in capacity is a result of fresh water leaching of the caverns during the drawdown of oil in previous years, such as the Desert Storm drawdown activities, oil sales in fiscal years 1996 and 1997, oil degassing movements and various site drawdown tests. Over the FY 1995-1997 time frame, much of the affected inventory was degassed and heat exchangers installed to further reduce vapor pressure during a drawdown of the reserve. During FY 2001, the inventory of 561.1 million barrels will provide 53 days of net import protection. By FY 2002, the inventory is projected to be 588.2 million barrels (including all receipts of Exchange and RIK oil) which will provide 53 days of net import protection.

In FY 1993, the SPR discovered that the vapor pressure of crude oil in many storage caverns was increasing as a result of intrusion of gasses and natural geothermal heating. Over the FY 1995-1997 timeframe 172 million barrels of the affected inventory was degassed and heat exchangers installed to further reduce vapor pressure during a drawdown of the reserve. The Department expects increases in vapor pressure due to continued geothermal heating and gas intrusion over time will constrain drawdown during a Presidentially declared max-rate emergency, for which the Reserve was established. It is anticipated that the vapor pressure of SPR crude during a full drawdown will exceed safe operating limits by 2004 at the Bryan Mound and Big Hill sites, and by 2006 at the West Hackberry and Bayou Choctaw sites. This request includes funding for renewed vapor pressure mitigation activities including geological studies of gas regain and performance specifications for continuous degas plants.

On July 10, 2000, the President directed the Department to establish a 2 million barrel heating oil reserve in the Northeast capable of assuring home heating oil supply during times of very low inventories and significant threats to immediate commercial supply. During August, the Department awarded contracts for lease of commercial storage facilities and acquisition of heating oil. This acquisition was accomplished by

the exchange of crude oil from the Strategic Petroleum Reserve for product. The receipt and storage of heating oil was completed on October 13, 2000.

The Goals of the SPR are to: Ensure readiness and maintain the capability to draw down and distribute crude oil from the SPR to protect the domestic U.S. economy from the impact of energy supply disruptions and to act cooperatively with member nations of the International Energy Agency (IEA) to deter or respond to supply disruptions which would adversely affect member nations. Performance Measures are linked to a comprehensive structure of organizational performance expectations and reviews. SPR's Level 1 Technical and Performance Criteria clearly define the SPR's physical facility performance requirements at every level of facility design and operation and are based on the specific performance requirements in the SPR Plan and its Amendments as approved by Congress. The SPR Strategic Plan forms the basis for the SPR Annual Performance Plan. This plan specifies the strategic objectives which contribute directly to the Department's goals and objectives for which we will be accountable. Whereas there are many detailed performance measures and indicators at the SPR, the Annual Performance Plan only includes the vital few that are essential to assessing the accomplishment of program goals. The following performance measures have been developed to determine the extent to which goals and desired outcomes and results are being achieved.

SPR PERFORMANCE MEASURES	FY 2002 OUTPUT TARGETS
Total crude oil capacity at Bayou Choctaw, Big Hill, Bryan Mound and West Hackberry sites.	700 MMB
Oil inventory available.	588.2 MMB
Drawdown rate.	4.2 MMB/Day
Distribution capability as a percentage of drawdown rate.	120% minimum
Calculated, predicted site availability.	≥ 95%
Weighted annual average of the performance elements in the Maintenance Performance Appraisal Report (MPAR).	≥ 95% of possible points
Weighted annual average of the performance elements of the Material Performance Appraisal Compilation (MPAC).	≥ 95% of possible points
Recovery equipment testing.	95% of test objectives
Percent of: - Trained Emergency Response Team members at each site - Operational spill response equipment available	95% 95%

SPR PERFORMANCE MEASURES	FY 2002 OUTPUT TARGETS
Percent of site security survey ratings that are satisfactory.	100%
Variance between oil sent and oil received during oil movements.	≤.4%
Percentage of crude oil samples meeting specifications.	≥ 95%
Days with no reportable/recordable ES&H events.	≥ 310 days
Number of environmental permit noncompliances received (including Notice of Violations (NOVs)).	≤ 10
Hazardous waste volume.	≤ 3,140 lbs
Sanitary waste volume (non-hazardous waste)	≤ 2,872,351 lbs
Lost workday case rate for the SPR.	≤ 1.1 cases per 200,000 worker hours
Operating cost per barrel of storage capacity.	\$0.2029 per barrel
Percent of Level 1 and 2 milestones completed on schedule.	≥ 90%
Percent of performance measure output targets achieved.	≥ 90%
Days to complete drawdown of the Northeast Home Heating Oil	12 days

Significant Accomplishments

Life Extension: During FY 2000, the Strategic Petroleum Reserve completed a comprehensive systems refurbishment to assure physical system capability through the year 2025. As a result of the initiative, component standardization and automation, maintenance and inventory controls are more efficient and less costly. The effort came in ahead of schedule and \$42 million below the original cost estimates pending resolution of all outstanding contractor claims.

Commercialization: Continued to lease SPR facilities that are not required for standby operational readiness and have no adverse impact on the SPR mission or program. To date the Strategic Petroleum Reserve has received revenues from the commercial leases of its distribution facilities and pipelines from the lease of the St. James Terminal, and pipelines at Big Hill, Bayou Choctaw, and Bryan Mound sites. These revenues total \$2,112,064; \$1,556,205 paid in crude oil equivalent and \$555,859 paid in cash (transferred to the United States Treasury).

These efforts have also reduced the maintenance cost of the Reserve by transferring that responsibility to the lessees.

Royalty Oil: The Department, in a joint initiative with the Department of the Interior (DOI), implemented a royalty oil transfer plan to replace approximately 28 million barrels of oil which were sold from the Reserve in fiscal years 1996 and 1997 largely for deficit reduction purposes. The Department and Interior's Minerals Management Service conducted a competitive exchange in which royalty oil produced at the offshore platform was offered for crude oil that meets the Reserve's specifications and deliverable to any of four Reserve sites. The Department expects to take the delivery of all the exchanged oil no later than December 2001.

Oil Exchange 2000: In September 2000, President Clinton, concerned with the very low level of commercial heating oil inventories directed DOE to exchange 30 million barrels of crude oil from the SPR. Solicitations were conducted in September and October for deliveries in November and December. In exchange for the SPR oil, contractors agreed to deliver 31.35 million barrels of oil to the Reserve between August and November 2001. Subsequently, DOE renegotiated the delivery dates for 9 million barrels of oil into the first quarter of 2002, and the amount of oil that will be returned is 32.1 million barrels, resulting in more crude oil inventory for the SPR.

Budget Highlights

The appropriation for FY 2000 included storage site maintenance, operations, security, drawdown testing, and drawdown readiness. Funding for Life Extension contract awards was completed. FY 2000 was financed with \$158.4 million in new Budget Authority. There was no oil acquisition by direct purchase.

The FY 2001 appropriation continues storage site maintenance, operations, security, drawdown testing, and drawdown readiness. For FY 2001 operations, maintenance, and management financing, the SPR received \$164.6 million in new Budget Authority which included \$4 million transferred from the Petroleum Account as partial funding for the Northeast Home Heating Oil Reserve (\$8 million). No funds were requested for direct purchase of additional crude oil. The current balance of \$15 million in the Petroleum Account will be used to finance transportation costs related to Exchange 2000 and DOI's Royalty Oil.

The FY2002 request continues storage site maintenance, operations, security, drawdown testing, and drawdown readiness for the Reserve, in addition to funding for maintenance of the Northeast Home Heating Oil Reserve. For FY 2002, the SPR requests \$169 million in new Budget Authority, which includes \$8 million for the Northeast Home Heating Oil Reserve. No funds are requested for direct purchase of additional crude oil.

**DEPARTMENT OF ENERGY
FY 2002 CONGRESSIONAL BUDGET REQUEST
STRATEGIC PETROLEUM RESERVE
(Dollars in thousands)
PROGRAM FUNDING PROFILE**

<u>Activity</u>	<u>FY 2000 Comparable</u>	<u>FY 2001 Comparable</u>	<u>FY 2002 Request</u>	<u>Program Change Request vs. Base</u>	
				<u>Dollar</u>	<u>Percent</u>
Storage Facilities Development and Operations Non-Phase Specific Management Subtotal	\$ 143,396 <u>15,000</u> <u>158,396</u>	\$ 140,672 <u>15,965</u> <u>156,637</u>	\$ 144,009 <u>17,000</u> <u>161,009</u>	\$+ 3,337 <u>1,035</u> <u>4,372</u>	+2% <u>+6%</u> <u>+2.7%</u>
Northeast Home Heating Oil Program	\$ 0	\$ 8,000 ^a	\$ 8,000	\$ 0	0%
TOTAL	\$ 158,396	\$ 164,637	\$ 169,009	\$ 4,372	+2.5%
SPR Petroleum Account transfers	\$ 0	\$ -16,000 ^b	\$ 0	\$ 0	0%
Staffing (FTEs)					
Headquarters FTEs	27	27	27		
Field FTEs	<u>01</u>	<u>101</u>	<u>101</u>		
Total FTEs	128	128	128		

^a Reflects new BA of \$4 Million and a transfer of \$4 Million from the SPR Petroleum Account.

^b Reflects \$4 Million transfer to the Northeast Home Heating Oil Reserve, and \$12 Million transfer to Fossil Energy R&D

**DEPARTMENT OF ENERGY
FY 2002 CONGRESSIONAL BUDGET REQUEST
STRATEGIC PETROLEUM RESERVE
(Dollars in thousands)**

SUMMARY OF CHANGES

FY 2001 Enacted	\$ 164,637
- Estimated Statutory Pay Increases	<u>656</u>
FY 2002 Base	\$165,293

Storage Facilities Development and Operations

Non-Phase Specific -Increase reflects funding for geological studies of gas regain and performance specifications for continuous degas plants.	\$+3,372
Management -Increased support for technical analyses of Program issues	<u>+344</u>
FY 2002 Congressional Budget Request	\$ 169,009

STRATEGIC PETROLEUM RESERVE

STORAGE FACILITIES DEVELOPMENT/OPERATIONS AND MANAGEMENT

I. Mission Supporting Goals and Objectives:

Storage Facilities Development and Operations funds all requirements associated with developing and maintaining facilities for the storage of petroleum, operations associated with placing petroleum into storage, operational readiness activities associated with drawing down and distributing the inventory on a 15-day notice in the event of an emergency. Requirements not directly associated with facilities development are funded in the Non-phase Specific category of the Storage Facilities Development and Operations budget. Management funds all costs of Strategic Petroleum Reserve personnel; administrative expenses related to maintaining the Project Management Office in New Orleans, Louisiana; contract services required to support management; and the technical analysis of program issues.

On March 6, 2001 the Secretary of Energy Spencer Abraham signed letters of notification to Congress that formally established the Northeast Home Heating Oil Reserve. The 2 million barrel reserve is stored in commercial facilities located in New York Harbor and in New Haven Connecticut. The Northeast Home Heating Oil Reserve funds all requirements associated with commercial storage and related facilities cost, repurchase of heating oil, and quality assurance expenses associated with drawdown and distributing the inventory in the event of an emergency in accordance with the Energy Policy and Conservation Act of 2000.

Performance Measures

For Storage Facilities Development/Operations/and Management, the key measure of program performance is expressed as capability to comply with Level 1 Performance Criteria. All program activities are developed to support this performance objective and are consistent with the SPR Performance Plan.

For the Northeast Home Heating Oil Reserve the key measure of the program performance is its ability to assist in the time of severe crisis that impacts the commercial heating oil supply and distribution. For FY 2002, a target of less than 12 days to complete the heating oil sale and drawdown cycle has been established.

II. A. Funding Table: Storage Facilities/O&M

<u>Program Activity</u>	<u>FY 2000 Comparable</u>	<u>FY 2001 Comparable</u>	<u>FY 2002 Request</u>	<u>\$Change</u>	<u>% Change</u>
Non-phase Specific	\$143,396	\$140,672	\$144,009	+\$3,337	2%
Management	\$15,000	\$15,965	\$17,000	+\$1,035	6%
Northeast Home Heating Oil Reserve	<u>\$0</u>	<u>\$8,000</u>	<u>\$8,000</u>	<u>\$0</u>	<u>0%</u>
 Total, Storage Facilities Development & Operations and Management	 <u>\$158,396</u>	 <u>\$164,637</u>	 <u>\$169,009</u>	 <u>+\$4,372</u>	 <u>2.6%</u>

II. B. Laboratory and Facility Funding Table: Storage Facilities/O&M

Sandia National Laboratories	\$1,884	\$2,454	\$2,506	+\$52	2.1%
National Petroleum Technology Office	\$750	\$750	\$750	\$0	0%
Oak Ridge National Lab	\$150	\$150	\$150	\$0	0%
All Other	<u>\$155,612</u>	<u>\$161,283</u>	<u>\$165,603</u>	<u>+\$4,320</u>	<u>2.6%</u>
 Total, Storage Facilities Development & Operations and Management	 <u>\$158,396</u>	 <u>\$164,637</u>	 <u>\$169,009</u>	 <u>+\$4,372</u>	 <u>2.6%</u>

III. Performance Summary: Storage Facilities/O&M (New BA in thousands of dollars)

<u>Program Activity</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Non-Phase Specific	Maintain operational readiness and facilities maintenance activities, consistent with Level I performance criteria.	Maintain operational readiness and facilities maintenance activities, consistent with Level I performance criteria.	Maintain operational readiness and facilities maintenance activities, consistent with Level I performance criteria.
	Continue the Drawdown Readiness Program and perform annual exercises.	Continue the Drawdown Readiness Program and perform annual exercises.	Continue the Drawdown Readiness Program and perform annual exercises.
	Continue Recovery Program exercises to maintain readiness and reliability.	Continue Recovery Program exercises to maintain readiness and reliability.	Continue Recovery Program exercises to maintain readiness and reliability.
	Continue ES&H program and corrective action plan activity developed to address unacceptable risk.	Continue ES&H program and corrective action plan activity developed to address unacceptable risk.	Continue ES&H program and corrective action plan activity developed to address unacceptable risk.
	Conduct testing of major SPR systems at all sites. Complete Life Extension Program.	No activity.	No activity.
	Continue to monitor geotechnical stability and mine integrity and test emergency responses in the event of indications of unacceptable mine structural conditions.	Continue to monitor geotechnical stability and mine integrity and test emergency responses in the event of indications of unacceptable mine structural conditions.	Continue to monitor geotechnical stability and mine integrity and test emergency responses in the event of indications of unacceptable mine structural conditions.

<u>Program Activity</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Non-Phase Specific (cont'd)	Partially re-fill the reserve with federal royalty oil from production in the central Gulf of Mexico. \$143,396	Continue to re-fill the Reserve with Federal royalty oil from production in the Central Gulf of Mexico and Exchange oil. \$140,672	Complete re-fill with Federal royalty oil by December 2001 and Exchange oil by Sept. 2002. \$144,009
Management	Continue management of SPR Program to assure capability to achieve Level 1 Performance criteria for drawdown and distribution. Provide analytic support for SPR development, fill and distribution policy decisions. Provide for support and oversight of M&O contractor and subcontractor activities and program operations. Continue the program to pursue commercial leasing of the SPR's underutilized distribution and cavern facilities.	Continue management of SPR Program to assure capability to achieve Level 1 Performance criteria for drawdown and distribution. Provide analytic support for SPR development, fill and distribution policy decisions. Provide for support and oversight of M&O contractor and subcontractor activities and program operations. Initiate the Source Evaluation Board in preparation for selection of a M & O Contractor. Continue the program to pursue commercial leasing of the SPR's underutilized distribution and cavern facilities.	Continue management of SPR Program to assure capability to achieve Level 1 Performance criteria for drawdown and distribution. Provide analytic support for SPR development, fill and distribution policy decisions. Provide for support and oversight of M&O contractor and subcontractor activities and program operations. Continue Source Evaluation Board process in preparation for selection of a M & O Contractor. Continue the program to pursue commercial leasing of the SPR's underutilized distribution and cavern facilities.

<u>Program Activity</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Management (cont'd)	Maintain oversight of geotechnical stability & mine integrity.	Maintain oversight of geotechnical stability & mine integrity.	Maintain oversight of geotechnical stability & mine integrity.
	Continue management of the ES&H corrective action program.	Continue management of the ES&H corrective action program.	Continue management of the ES&H corrective action program.
	Maintain capability to resume oil acquisition.	Maintain capability to resume oil acquisition.	Maintain capability to resume oil acquisition.
	Continue oil quality assurance management activities.	Continue oil quality assurance management activities.	Continue oil quality assurance management activities.
	Finance administrative support provided through the Working Capital Fund.	Finance administrative support provided through the Working Capital Fund.	Finance administrative support provided through the Working Capital Fund.
	A level of 128TE's.	A level of 128 FTE's.	A level of 128 FTE's.
	\$15,000	\$15,965	\$17,000

Program Activity	FY 2000	FY 2001	FY 2002
Northeast Home Heating Oil Reserve	No Activity	Establish Northeast Home Heating Oil Reserve. Exchange crude oil from SPR in exchange for heating oil and lease of commercial storage space	Continue operation of the Northeast Home Heating Oil Reserve. Funding supports lease of commercial storage space, quality assurance, auditing, and cost associated with drawdown.
	\$0	\$8,000	\$8,000
Total, Storage Facilities Development & Operations and Management and Northeast Home Heating Oil Reserve	\$158,396	\$164,637	\$169,009

SPR PETROLEUM ACCOUNT

OIL ACQUISITION AND TRANSPORTATION

I. Mission Supporting Goals and Objectives:

The SPR Petroleum Account was established in the Treasury pursuant to the provisions of the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35). This account funds all Strategic Petroleum Reserve petroleum inventory acquisitions, associated transportation costs, U.S. Customs duties, terminal throughput charges, incremental drawdown costs and other related miscellaneous costs.

II. A. Funding Table: Oil Acquisition and Transportation

<u>Program Activity</u>	<u>FY 2000 Comparable</u>	<u>FY 2001 Comparable</u>	<u>FY 2002 Request</u>	<u>\$Change</u>	<u>%Change</u>
Oil Acquisition and Transportation	\$0	\$0	\$0	\$0	0%
Transfer to Northeast Home Heating Oil	\$0	-\$4,000	\$0	+\$4,000	100%
Transfer to Fossil Energy R & D	\$0	-\$12,000	\$0	+\$12,000	100%
Total, Oil Acquisition and Transportation	<u>\$0</u>	<u>\$-16,000</u>	<u>\$0</u>	<u>+\$16,000</u>	<u>100%</u>

II. B. Laboratory and Facility Funding Table: Oil Acquisition and Transportation

All Other	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0%</u>
-----------	------------	------------	------------	------------	-----------

III. Performance Summary: Oil Acquisition and Transportation (New BA in thousands of dollars)

<u>Activity</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Oil Acquisition and Transportation	FY 2000 Oil acquisition and Transportation program outlays from prior year balances total less than \$1 million for continued drawdown readiness to conduct oil sales.	FY 2001 Oil acquisition and Transportation program obligations are for transportation costs related to the Royalty-In-Kind (RIK) Program and the Exchange Program. \$10,000 Transfer of \$4M to the Northeast Home Heating Oil Program -\$4,000 \$0 Transfer of \$12M to Fossil Energy R & D -\$12,000	FY 2002 Oil acquisition and Transportation program obligations are for transportation costs related to the Royalty-In-Kind (RIK) Program and the Exchange Program. \$5,000 \$0
Total, Oil Acquisition and Transportation	\$0	-\$16,000	\$0