

“Confusion of goals and perfection of means seems, in my opinion, to characterize of age.”

Albert Einstein

Central Question:

Should we always leave the short term determination of oil price to OPEC, hoping that organization will act like a responsible central banker to counteract price volatility or should the IEA and the U.S. SPR act when OPEC fails to play that role?

Energy Policy and Conservation Act (1975)

Section 161(d)(1)

No Sales “--- unless the President has found drawdown and sale are required by a severe energy supply interruption or by obligations of the United States under the international energy program.”

Energy Policy and Conservation Act
Section 161. (d)(2)

“--- a severe energy supply interruption shall be deemed to exist *if the President determines* that-

(A) an emergency situation exists and there is a significant reduction in supply which is of significant scope and duration;

(B) a severe increase in the price of petroleum products has resulted from such emergency situation; and

(C) such price increase is likely to cause a major adverse impact on the national economy.

SPR Sales

- 2011 Libyan Sale
- Demonstrable drop in supply (but no obvious shortage) for 4 months with no IEA or US response
- Offer: 30 million barrels – IEA obligation
- Sold: 30+ million barrels
- Average cost of oil in SPR circa \$34
- Average price of oil sold circa \$107
- Will book profit of about \$2.1 billion

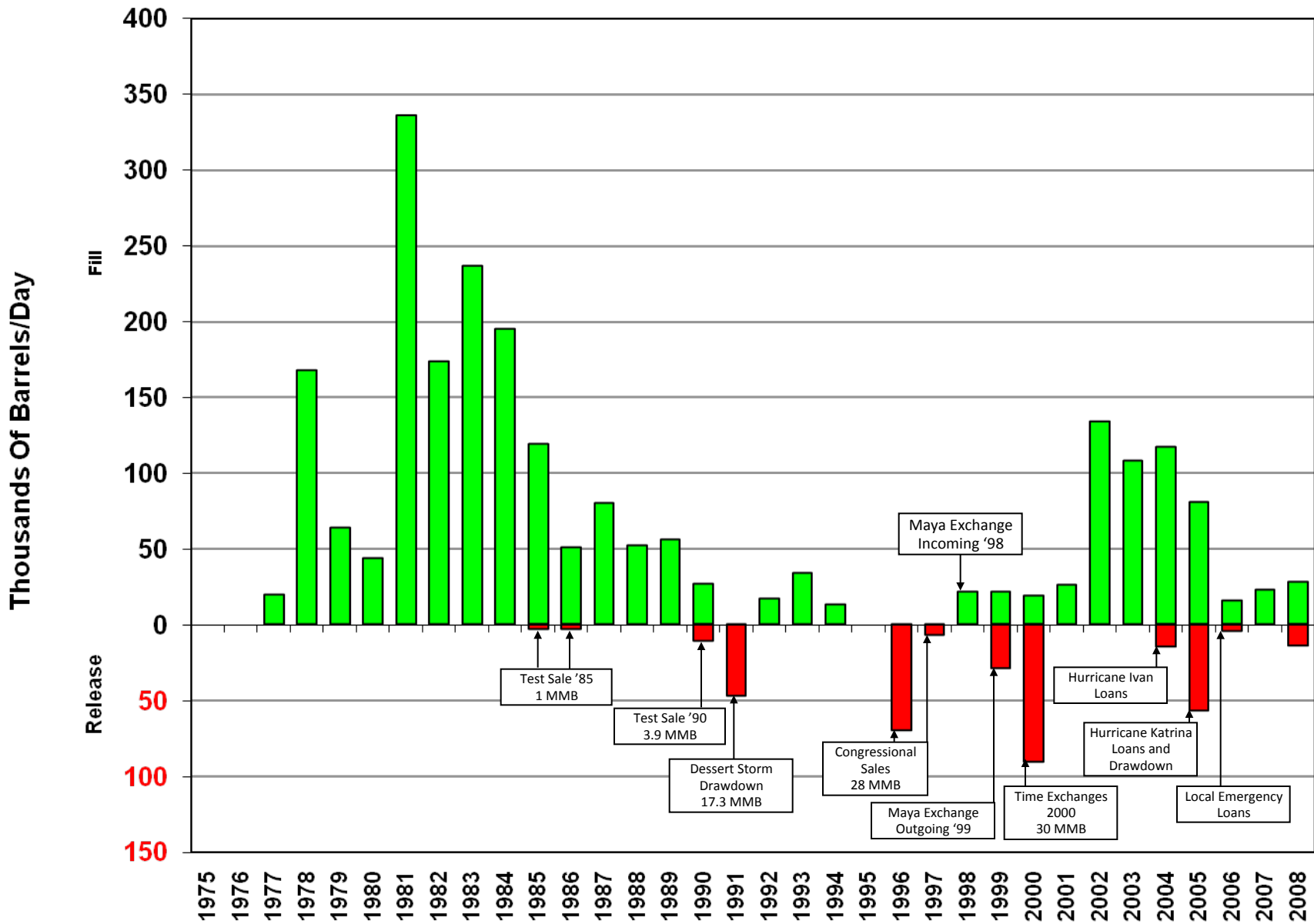
SPR Sales

- August 1990 Iraq/Kuwait war
- Loss of oil from Iraq and Kuwait unanswered for five months by IEA and US
- January 1991 war is decided on first day
- Offer: 30 million barrels – emergency sale
- Sold: 17.3 million
- Average Cost of oil in the SPR circa \$27
- Average Cost of oil sold circa \$19
- Booked loss of well over \$100 million

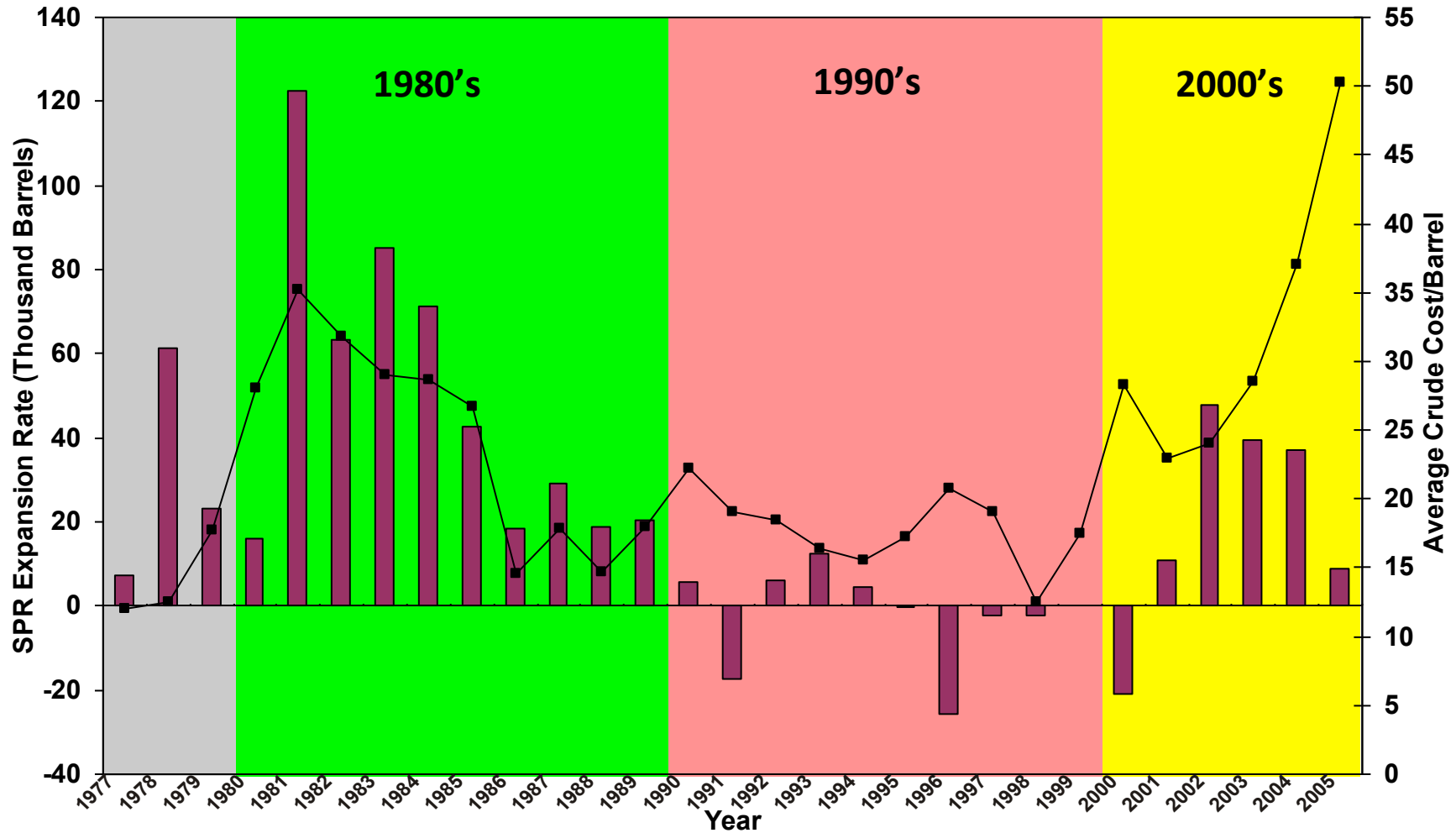
SPR Sales

- 2005 Hurricane Katrina closes Gulf of Mexico
- More refineries down than oil production
- Shortage is products and SPR has only crude oil
--- we sold anyway
- Offer: 30 million barrels – emergency sale
- Sold: 11 million barrels
- Average Cost of oil in the SPR circa \$30
- Average Cost of oil sold circa \$64
- Profit booked about \$370 million

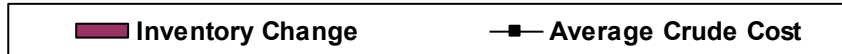
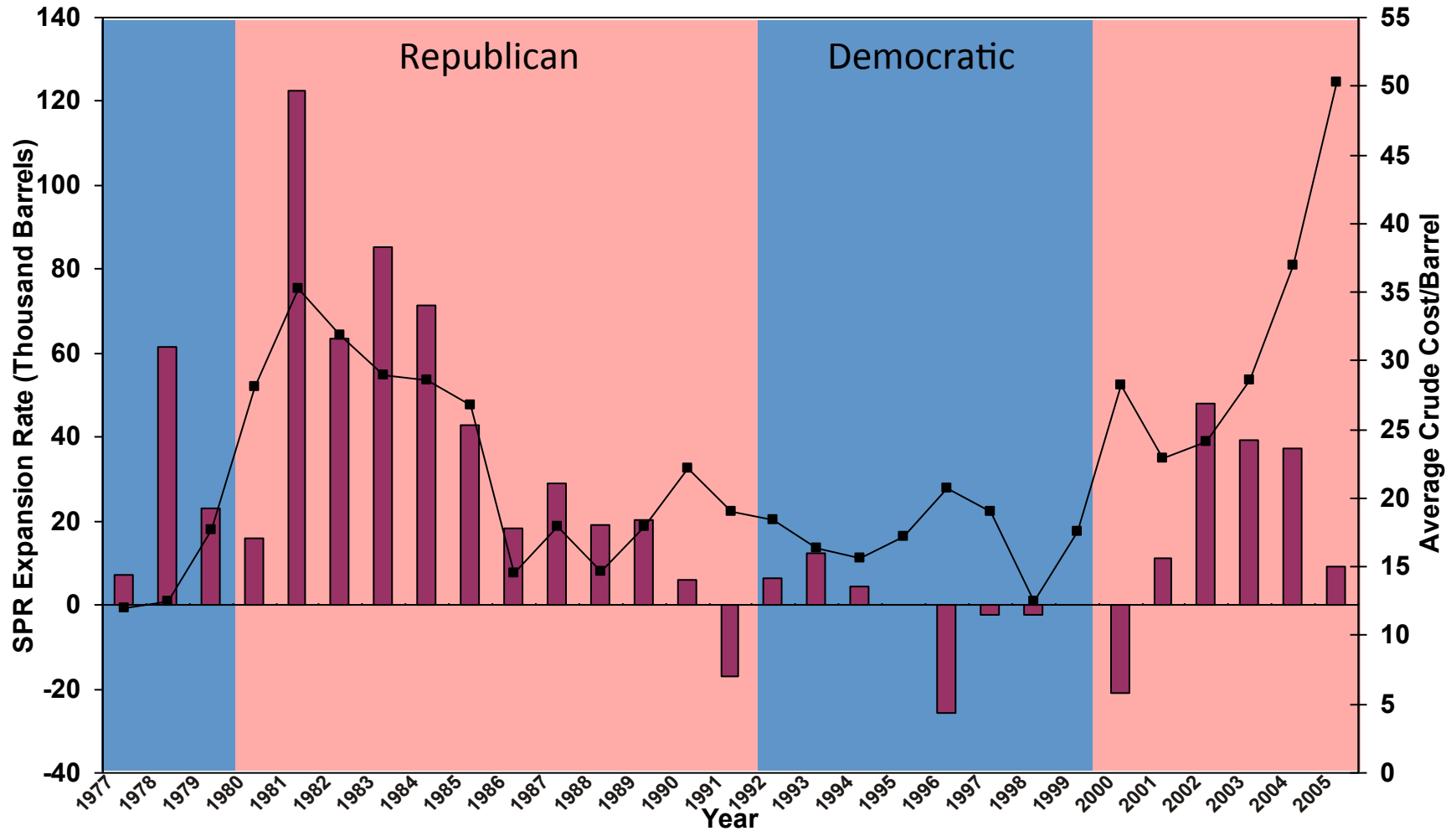
Oil Fill & Drawdown Activities



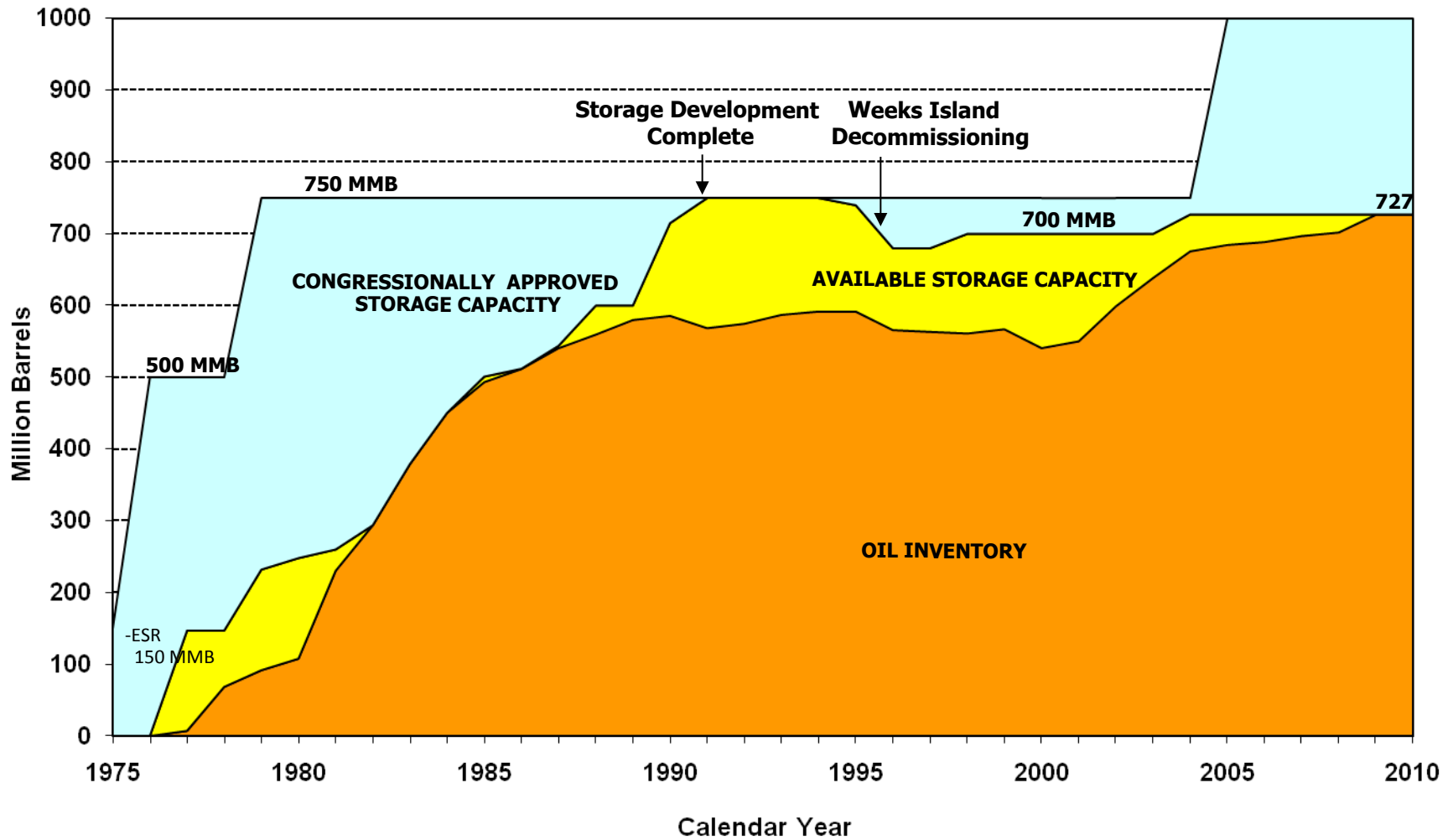
SPR Inventory Additions vs. Average Crude Market Prices



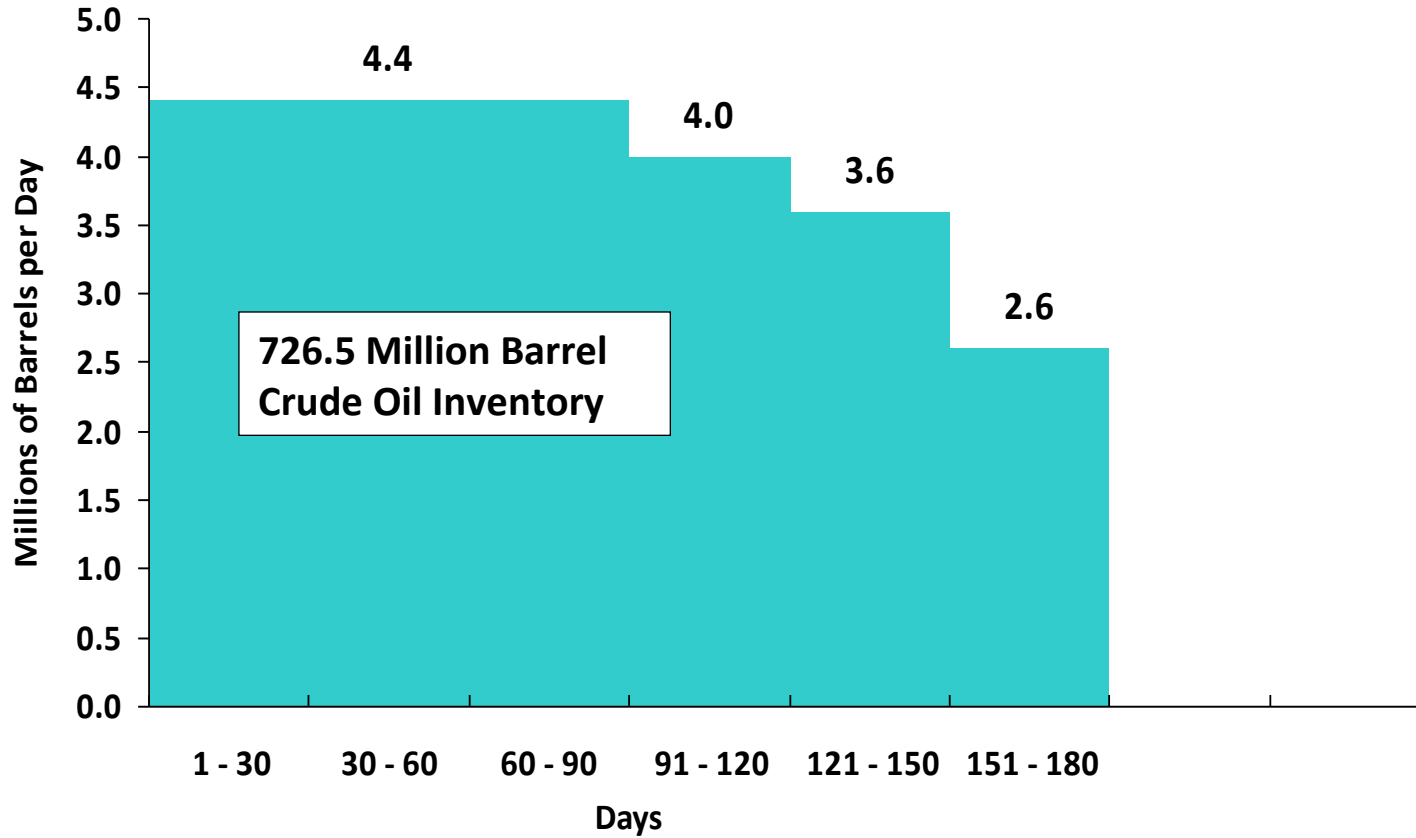
SPR Inventory Additions vs. Average Crude Market Prices



SPR Storage Capacity History



Strategic Petroleum Reserve Maximum Drawdown Capability 12/31/2010



Note: Rates after 90 days are based on cavern-use assumptions. Actual rates are contingent on the specific caverns drawn down during a previous drawdown period.