

## Fill It Up – Trump Administration Uses SPR to Help Stabilize Oil Prices

April 6, 2020

On Thursday, April 2, the U.S. Department of Energy (DOE) announced plans to lease out space for domestic oil companies to store oil in the Strategic Petroleum Reserve (SPR). The decision marks a significant step by the federal government to support the oil and gas industry at a time when the price of oil has dropped to its lowest level in nearly two decades and demand for fuel has decreased due to travel reductions resulting from the COVID-19 pandemic.

The plan outlined by the DOE immediately makes 30 million barrels of the SPR's oil storage capacity available to U.S. oil producers that are awarded a contract. The DOE has stated in its [Request for Proposal](#) that the primary factor determining winning bids will be the highest fixed monthly exchange ratio submitted by a conforming bidder. Barrels approved to be stored will be delivered from May 1, 2020, through June 30, 2020, with a capacity for 685,000 barrels accepted per day. The DOE has stated that it intends to make an additional 47 million barrels of storage capacity available thereafter.

The announcement to allow domestic oil producers to store crude oil in the SPR comes after a proposal to allocate \$3 billion to purchase crude oil from domestic oil producers for the SPR failed to be included in the final text of the CARES Act. The Act instead calls for a drawdown or sale of up to \$450 million of crude oil in 2020, 2021 and 2022. Proceeds from the drawdown will be designated for the Life Extension II project to support operational capacity of the SPR.

At a meeting between President Trump and oil and gas industry executives on Friday, April 3, the President affirmed his full support for the domestic oil and gas sector and the new leasing plan. Energy Secretary Daniel Brouillette, who also attended the meeting, acknowledged that despite not receiving funding to purchase crude oil in the CARES Act, the DOE had found an "alternative financing mechanism." It is unclear if Secretary Brouillette was referring to the leasing plan but he did suggest that companies may pay to lease space instead of having the DOE purchase barrels.

Proposals to lease space in the SPR must be received by the DOE before 11:00 a.m. CDT on April 9, 2020. Potential offerors must register in the System for Award Management at <https://www.sam.gov/>.

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