

SPR Petroleum Account

Office of Fossil Energy

Overview

Appropriation Summary by Program

(dollars in thousands)

	FY 2003 Comparable Appropriation	FY 2004 Comparable Appropriation	FY 2005 Base	FY 2005 Request	FY 2005 Request vs Base	
					\$ Change	% Change
SPR Petroleum Account	6,955	0	0	0	0	+0.0%
Rescission of Previously Appropriated Funds	-5,000	0	0	0	0	+0.0%
Total, SPR Petroleum Account	1,955	0	0	0	0	+0.0%

Detailed Funding Table

(dollars in thousands)

	FY 2003	FY 2004	FY 2005
SPR Petroleum Account			
Oil Acquisition & Transportation.....	6,955	0	0
Rescission of Previously Appropriated Funds.....	-5,000		
Total, SPR Petroleum Account.....	1,955	0	0

Preface

The Strategic Petroleum Reserve (SPR) provides the United States with strategic and economic protection against disruptions in oil supplies. The program's goal is to mitigate the Nation's energy and security vulnerabilities.

The SPR Petroleum Account appropriation funds Oil Acquisition and Transportation activities for the Reserve.

This Overview will describe Strategic Context, Mission, Benefits, Strategic Goals, and Funding by General Goal. These items together put the appropriation in perspective. The Annual Performance Results and Targets, Means and Strategies and Validation and Verification sections address how the goals will be achieved and how performance will be measured. Finally, this Overview will address the Program Assessment Rating Tool (PART) and Significant Program Shifts in all programs.

Strategic Context

Following publication of the Administration's National Energy Policy, the Department developed a Strategic Plan that defines its mission, four strategic goals for accomplishing that mission, and seven general goals to support the strategic goals. Each appropriation has developed quantifiable goals to support the general goals. Thus the "goal cascade" is the following:

Department Mission → Strategic Goal (25 years) → General Goal (10-15 years) → Program Goal (GPRA Unit) (10-15 years)

To provide a concrete link between budget, performance, and reporting, the Department developed a "GPRA" unit concept. Within DOE, a GPRA Unit defines a major activity or group of activities that support the core mission and aligns resources with specific goals. Each GPRA Unit has completed or will complete a Program Assessment Rating Tool (PART). A unique program goal was developed for each GPRA unit.

The goal cascade accomplishes two things. First, it ties major activities for each program to successive goals, and ultimately to DOE's mission. This helps ensure the Department focuses its resources on fulfilling its mission. Second, the cascade allows DOE to track progress against quantifiable goals and to tie resources to each goal at any level in the cascade. Thus the cascade facilitates the integration of budget and performance information in support of the GPRA and the President's Management Agenda (PMA).

Mission

The mission of the Strategic Petroleum Reserve (SPR) is to store petroleum to reduce the adverse economic impact of a major petroleum supply interruption to the US and to carry out obligations under the international energy program. At the end of 2004, the inventory is projected to be 656 million barrels, which will provide 56 days of net import protection. The Reserve will be filled to its 700 million-barrel capacity in 2005, providing 59 days of net import protection.

Benefits

The U.S. (and trading partner) reliance on oil and U.S. net oil import levels (forecast to increase) combined with location of significant global oil reserves in regions of the world subject to political unrest, have made the U.S. vulnerable to supply disruptions. The presence of the SPR provides protection from supply disruptions.

Strategic Goal

The Department's Strategic Plan identifies four strategic goals (one each for defense, energy, science, and environmental aspects of the mission plus seven general goals that tie to the strategic goals. The Strategic Petroleum Reserve appropriation supports the following goal:

Energy Strategic Goal: To protect our national and economic security by promoting a diverse supply and delivery of reliable, affordable, and environmentally sound energy.

General Goal 4, Energy Security: Improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.

The programs funded within the Strategic Petroleum Reserve appropriation have one Program Goal that contributes to the General Goals in the “goal cascade”. This goal is:

Program Goal 04.58.00.00: Maintain operational readiness of the Strategic Petroleum Reserve to drawdown at a sustained rate of 4.4 million barrels per day for 90 days, within 15 days notice by the President, and fill the SPR to its current capacity of 700 million barrels by 2005.

Contribution to the General Goal

The programs within the SPR appropriation contribute to General Goal 4 by assuring the Reserve is maintained in a high state of readiness. Assurance is measured by how quickly the program can respond to a Presidential direction to draw down; how much of the oil inventory in SPR storage is available; and the cost efficiency of operations. 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, and operational readiness initiatives associated with drawing down and distributing the inventory in 13 - 15 days notice in the event of an emergency. Management funds personnel and administrative expenses related to maintaining the Project Management Office (New Orleans, Louisiana) and the Program Office (Washington, DC), as well as contract services required to support management and the technical analysis of program issues.

Funding by General Goal

(dollars in thousands)

	FY 2003	FY 2004	FY 2005	\$ Change	% Change
General Goal 4, Energy Security Program Goal 04.58.00.00 Petroleum Reserves.....	6,955	0	0	0	+0%
Rescission of Previously Appropriated Funds.....	-5,000				
Total.....	1,955	0	0	0	+0%

FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results	FY 2004 Targets	FY 2005 Targets
<u>Oil Acquisition and Transportation</u>					
Complete contracting for the transfer and/or exchange of 28 million barrels of Federal Royalty Oil from the Department of the Interior for a net increase of approximately 23 million barrels in the SPR inventory, with deliveries of a remaining four million barrels in FY 2001. (MET GOAL)	Complete the transfer of Phase I - Federal Royalty Oil to the SPR by November 2000 per the FY 1999 Agreement with the Department of Interior. (MET GOAL)	Complete the transfer of Phase II and III - Federal Royalty Oil to the SPR. (MET GOAL - Added approximately 19.6 million of Royalty Oil that contributed to the total delivery to inventory of 42.5 million barrels from all Exchange and Federal Royalty Oil agreements.)	Increase crude oil inventory to 628 million barrels. (GOAL NOT MET - The inventory of the SPR at the end of September was 624.4MMB. The variance was caused by deferral of nearly 20 MMB in oil receipts during the Venezuela oil crisis. For this deferral, we will receive an additional 2.9MMB crude premium.)	Increase crude oil inventory to 656 million barrels.	

Means and Strategies

The SPR will use various means and strategies to continue its mission and achieve program goals. Assurance of a readiness posture will be accomplished through internal readiness reviews, assessments, exercises, and tests. Effectiveness of the SPR to mitigate the economic damage of severe oil supply disruptions will be influenced by the SPR's size (inventory and capacity) and ability to deliver into the marketplace. Since FY 1999, the Department has been using agreements with the Department of the Interior to use Federal Royalty Oil to fill the SPR to its 700 million barrel capacity. Completion of deliveries is scheduled for 2005.

Performance can be affected by external factors including petroleum market conditions and developments in the commercial distribution system (i.e., pipelines, and terminals). Continuing royalty-in-kind transfers beyond FY 2003 will be contingent on annual delivery targets negotiated with the Department of the Interior.

Validation and Verification

There is a hierarchy of performance information for the SPR. The Department collects & tracks the "critical few" measures. The SPR Program Office monitors limited, specific, short and long-term measures. The SPR Project Management Office manages the detailed, operational measures that are implemented by the contractors. Organizational and action plans are reviewed and analyzed at quarterly Program Reviews. Monthly Project Assessments and Project Reviews are conducted to analyze performance against all milestones and contracts. These reviews provide an opportunity to discuss performance and provide direction to contractors. These same measures are reviewed daily during the site managers' site status meetings. Budget formulation/ execution assessments are regularly conducted throughout the year, including annual budget validations. Other evaluations include: semiannual M&O contractor award fee performance assessments against Work Authorization Directives; on-site reviews to verify operational, maintenance and management performance data; and draw down readiness quarterly reviews.

Program Assessment Rating Tool (PART)

The Department implemented a tool to evaluate selected programs. PART was developed by the Office of Management and Budget (OMB) to provide a standardized way to assess the effectiveness of the Federal Government's portfolio of programs. The structured framework of the PART provides a means through which programs can assess their activities differently than through traditional reviews.

The current focus is to establish outcome and output oriented goals, the successful completion of which will lead to benefits to the public, such as increased national security and energy security, and improved environmental conditions. DOE has incorporated feedback from OMB into the FY 2005 Budget Request, and the Department will take the necessary steps to continue to improve performance.

Assessment under the PART found the SPR to be an effective program, well designed with a clear mission. The total program score was 92%, with individual sections scoring as follows: Program Purpose and Design - 100%, Strategic Planning – 88%, Program Management - 100%, and Program Results – 87%. OMB found that the Department's budget was not sufficiently aligned with program

goals to distinguish the impact of funding changes on performance. To address these findings, there is a stronger link between the goals and funding request as shown in this budget submission.

Significant Program Shifts

In November 2001, the President directed the Secretary of Energy to continue using the royalty oil transfer plan initiated in 1999, as a means to fill the Reserve to its current capacity of 700 million barrels. Fill of the SPR to 700 million barrels is scheduled for completion in 2005. Funding was not requested for Royalty Oil expenses beginning in FY 2004 due to contractual changes making transportation charges for Royalty-In-Kind fill the responsibility of the contractors.

**SPR Petroleum Account
Office of Fossil Energy**

Funding by Site by Program

(dollars in thousands)

	FY 2003	FY 2004	FY 2005	\$Change	%Change
Strategic Petroleum Reserve Project Office	6,955	0	0	0	+0%
Rescission of Previously Appropriated Funds.....	-5,000				
Total, SPR Petroleum Account.....	1,955	0	0	0	+0%

Public Law Authorizations:

P.L. 94-163, "Energy Policy and Conservation Act" (FY 2003)

Site Description

Strategic Petroleum Reserve Project Office

The SPR Project Office, located in New Orleans, LA, funds transportation activities related to fill of the Reserve to its current capacity of 700 million barrels.

SPR Petroleum Account Office of Fossil Energy

Funding Profile by Subprogram

(dollars in thousands)

	FY 2003 Comparable Appropriation	FY 2004 Comparable Appropriation	FY 2005 Base	FY 2005 Request	FY 2005 Request vs Base	
					\$ Change	% Change
Oil Acquisition & Transportation	6,955	0	0	0	0	+0%
Rescission of Previously Appropriated Funds.....	-5,000					
Total, SPR Petroleum Account.....	1,955	0	0	0	0	+0%

Mission

The mission of the SPR Petroleum Account subprogram is to fund drawdowns and sales operations per the provisions of the Omnibus Budget Reconciliation Act of 1981 P.L. 97-35. The Strategic Petroleum Reserve (SPR) was created by the Energy Policy and Conservation Act (EPCA) of 1975 to provide the United States with adequate strategic and economic protection against disruptions in oil supplies.

Benefits

U.S. (and trading partner) reliance on oil and U.S. net oil import levels (forecast to increase) combined with location of significant global oil reserves in regions of the world subject to political unrest, have made the U.S. vulnerable to supply disruptions. The presence of the SPR provides protection from supply disruptions.

Detailed Justification

(dollars in thousands)

	FY 2003	FY 2004	FY 2005
Oil Acquisition and Transportation.....	6,955	0	0
Rescission of Previously Appropriated Funds.....	-5,000		
Oil Acquisition and Transportation ..	1,955	0	0

FY 2003 activities support continued Royalty-in-Kind (RIK) transfers to fill the Reserve to capacity. Funding is not being requested in FY 2004 and FY 2005 due to contractual changes making transportation charges the responsibility of the contractors.

Total, Oil Acquisition and Transportation ...	1,955	0	0
--	--------------	----------	----------

Explanation of Funding Changes

N/A