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Blog Post

Department of Energy Announces Purchase of Crude Oil for the Strategic Petroleum Reserves

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Update: As of March 25, 2020, the Department of Energy has revoked its initial March 19 solicitation after the U.S. Senate Coronavirus Aid, Relief, and Economic Security Act failed to include any funding for Strategic Petroleum Reserve purchases. We are actively monitoring any updates.

On March 13, 2020, following a historic drop in commodity prices related to a Russia–Saudi price war and a corresponding demand shock from the ongoing coronavirus (“COVID-19”) crisis, President Trump announced his intention to direct the Department of Energy (“DOE”) to purchase American-made crude oil to fill the Strategic Petroleum Reserve (“SPR”) to its maximum capacity as relief for the American energy industry (“Trump Directive”).

Following the Trump Directive, on March 19, 2020, the DOE [announced an initial solicitation](#) to purchase 30 million barrels of sweet and sour crude oil with a focus on small to midsize U.S. oil producers. The initial solicitation is for crude oil delivered in May and June, but April deliveries are encouraged. The department [also announced](#) that it is working with Congress to finalize the purchase of the full 77 million barrels of oil, consistent with the Trump Directive.

Background: Strategic Petroleum Reserve

The SPR is overseen by the Office of Petroleum Reserves (“OPR”) within the DOE and, together with the Northeast Home Heating Oil Reserve (“NEHHOR”) and the Northeast Gasoline Supply Reserve (“NGSR”), constitutes the U.S.’ emergency stockpile of energy sources intended to protect the U.S. from severe petroleum supply interruptions.

Created in 1975 after oil supplies were interrupted during the 1973–74 oil embargo, the SPR currently has four major oil storage facilities in the Gulf Coast region of the U.S., two sites in Texas (Bryan Mound and Big Hill), and two sites in Louisiana (West Hackberry and Bayou Choctaw).

Over the last 30 years, the government has acquired approximately 800 million barrels of petroleum for the SPR; however, more than 100 million barrels of oil have been withdrawn from the SPR for sale or exchange. The inventory reached its highest level of 700.7 million barrels in August 2005 before the drawdown, exchange and sale of 20.8 million barrels in the aftermath of Hurricane Katrina. As of March 13, 2020, [the SPR held](#) 384.7 million barrels of sour crude and 250.3 million barrels of sweet crude, for a total of 635 million barrels of emergency oil.

Acquisition of Crude Oil for the Strategic Petroleum Reserve

The DOE is permitted to acquire oil for the SPR through either (i) direct purchase, (ii) the transfer of royalty-in-kind oil, through deferrals and exchanges, or (iii) other means authorized in sections 159 and 160 of Energy Policy Act of 2005 (“EPCA”). In order to acquire oil, DOE [may enter into agreements](#) with other federal agencies with relevant expertise and resources to acquire oil for the SPR consistent with the provisions of 10 CFR Part 626.

To satisfy the Trump Directive, the DOE is currently focused on direct purchases, which are contingent on the availability of funds from Congress. Once funds are made available, the DOE is required to provide public notice of its intent to issue a solicitation for the acquisition of crude oil, which must identify the quantity and quality of oil to be purchased. When acquiring by direct purchase, DOE must use competitive solicitations to assure that prices paid are fair and reasonable in a global market, and in line with contemporaneous commercial transactions for comparable quality crude oils.

The current solicitation requires that proposals be received by the OPR on or before 11:00 a.m. CT, on March 26, 2020. The government contemplates award of a firm-fixed-priced contract resulting from the solicitation without discussions with the offerors (and, thus, requests that each offeror provide its best terms from a price and technical standpoint). Given the Trump Directive to favor small and medium domestic producers, it is likely that multiple awards will be granted.

Implications of the Trump Directive

Oil continues to be hit on both the demand and supply side after an already historic drop in 2019-20. While the acquisition of crude oil for the SPR alone is not likely to prop up crude oil prices in the near term, the acquisition is a first step in the government's limited arsenal to promote domestic crude producers in an attempt to stave off immediate bankruptcies. In addition to promoting domestic crude producers, the increase of the SPR comes at a perfect time for the American taxpayer as prices are low and, given the current geopolitical turmoil, the increased reserves may prove imperative in the event a release of supplies is necessary following the COVID-19 crisis.

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