



The (Mis) Use of the SPR 7/28/22

The designed purpose of the Strategic Petroleum Reserve (SPR) was, is and should be to minimize the economic dislocations during a supply disruption. Your 401K and IRAs are for specific long-term purposes. Your financial advisor wouldn't want you to tap into either for a week's vacation in Hawaii. Likewise, we should not be using the SPR for price dampening purposes, no matter how politically appealing it might seem.

The Administration's 1MMB/D sale ends this October. That's just a few days before the mid-term elections. They just announced yesterday that they will be offering an additional 20 million/bbls starting September 16th and ending October 21st. Read into this what you want. Curiously, it's timed to be just two weeks before the bottleneck. U.S Gulf and East Coast refiners are operating well above year ago levels at around 97% of capacity. What the U.S. should be doing is coaxing refiners (anywhere and everywhere) with some spare capacity around the world to utilize that capacity.

In mid-September, the Administration will be given a political gift as it relates to gasoline prices. The refining industry moves from summer grade to winter grade gasoline specs. This will free up some capacity but more importantly it allows refiners to utilize to a greater degree lower priced butanes (and other materials) because of the higher RVP allowed in the winter.)

This move from summer to winter specs could lower costs by between 15-25 cents/gal. That is the equivalent of \$6.30- 10.50/bbl.

That is probably more than we will see from the 20 million barrel newly announced release.