



The SPR Use Debate: Potential Political Interference Has Potential Consequence (10/30/22)

The original intent of the U.S. crude oil SPR was that it was supposed to be used during **supply disruptions**. The industry supported the program because its intent was clearly understood. It was not to be used as a pricing tool, but as a supply response to a physical disruption.

Because its intent was clear, the level of SPR crude oil inventories didn't impact the level of **commercial stocks**. Yet, some very informed individuals today believe that we should rethink the use of the **crude oil reserve**. They believe it should be used as a pricing tool.

I believe we need to move cautiously and have hearings on this. Congress needs to be involved. If the industry believed that the SPR could and would be released when prices rose without a supply disruption, they would be putting the value of their inventory at risk. And the general level of **commercial crude oil stocks** might be lowered.

This would open the door to strong political interference in the markets, where volatility is the **norm not the exception**.

P.S. A Better Way

The Administration, focused on the price of gasoline and its impact on the American consumer, decided to draw down the SPR to lower the price of gasoline. They put into the market 1MMB/D or 180 million barrels (it is possible that some additional barrels will be offered). While prices initially came off, they bounced back towards the mid \$80's.



The Administration was surprised at the tepid price response. 1 MMB/D represents 20% of U.S. consumption and there were those in the W.H. without much industry experience who expected more. What was missing was the fact that the 1MMB/D plays out in the global market where demand is not 20MMB/D but closer to 100MMB/D

We would be better served if we let price do what price does, i.e., signal an imbalance. Conservation would be maximized, and we wouldn't draw the SPR for reasons it wasn't designed for. What the Government should do when prices rise so high as to create enormous pain to a segment of the economy is help them directly through safety nets etc., and not use the SPR, which was designed to be available during **supply disruptions**.