

EXTENSION OF
NAVAL PETROLEUM RESERVES PRODUCTION

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

THE DECISION TO EXTEND THE PERIOD OF PRODUCTION OF THE
NAVAL PETROLEUM RESERVES FOR A PERIOD OF 3 YEARS
FROM APRIL 5, 2000



OCTOBER 12, 1999.—Message and accompanying papers referred to the
Committee on Armed Services and ordered to be printed

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To the Congress of the United States:

In accordance with section 201(3) of the Naval Petroleum Reserves Production Act of 1976 (10 U.S.C. 7422(c)(2)), I am informing you of my decision to extend the period of production of the naval petroleum reserves for a period of 3 years from April 5, 2000, the expiration date of the currently authorized period of production.

Attached is a copy of the report investigating the necessity of continued production of the reserves as required by 10 U.S.C. 7422(c)(2)(B). In light of the findings contained in that report, I certify that continued production from the naval petroleum reserves is in the national interest.

WILLIAM J. CLINTON.

THE WHITE HOUSE, *October 8, 1999.*

**CONTINUED PRODUCTION
OF THE
NAVAL PETROLEUM RESERVES
BEYOND APRIL 5, 2000**

August 1999

U.S. Department of Energy

BACKGROUND

The Naval Petroleum Reserves Production Act of 1976 (Pub. L. 94-258) directed that the Naval Petroleum Reserves be developed and produced, at their maximum efficient rates (MER), for an initial 6-year period beginning in April 1976. Pub. L. 94-258 authorizes the President to extend production in increments of up to three years each provided the President submits to the Congress a report of an investigation that determines the necessity for continued production, along with a Presidential certification that continued production is in the national interest. President Reagan exercised his authority to continue production on three occasions. President Bush exercised his authority once, and President Clinton twice. As a result, production from the Reserves is currently authorized through April 5, 2000.

Under Pub. L. 94-258 the President may:

- Continue production at the maximum efficient rate for up to three years beyond April 5, 2000 or
- Shut-in production at a level that would protect the reservoirs from ultimately losing oil reserves, perhaps indefinitely or until a national defense emergency required activation of the Reserves.

In February 1996, Congress enacted the National Defense Authorization Act for Fiscal Year 1996 (Pub. L. 104-106). This statute required the Department of Energy (DOE) to sell the Government's interest in Naval Petroleum Reserve Numbered 1 (NPR-1, or Elk Hills) in Kern County, California, by February 10, 1998. To comply with this requirement, DOE conducted a competitive bidding process, and on February 5, 1998, sold all of its interest in Elk Hills to Occidental Petroleum Corporation for \$3.65 billion.

This report addresses the continuation of production operations at one of the two remaining Naval Petroleum Reserves: Naval Petroleum Reserve Numbered 3 (NPR-3, also known as Teapot Dome), a small, mature stripper field located near Casper, Wyoming. Continued production from Naval Petroleum Reserve Numbered 2 (NPR-2, Buena Vista Hills, in Kern County, California) is not analyzed in this report because the Government's productive acreage on NPR-2 has been leased since the 1920s, and production will continue under the terms of those leases and current law as long as it is commercially viable.

The Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Pub. L. 105-261) authorizes DOE to dispose of NPR-3 by sale, lease, or transfer to another Federal agency, after oil and gas operations are abandoned in accordance with commercial operating practices.

CONTINUED PRODUCTION OF NPR-3

ECONOMIC IMPACTS

NPR-3 is a mature crude oil stripper field (production averages under 10 barrels per day per well) nearing the end of its economic life (the time during which revenues from the sale of produced oil exceed the costs of production and yield a positive net cash flow). During the first half of 1999, production averaged 650 barrels of oil per day. Revenues from the sale of the produced oil are expected to yield a net positive cash flow of approximately \$0.65 million in 1999. Small capital investment projects to slow the gradual decline in oil production and continued emphasis on reducing operating and overhead costs should facilitate a positive net cash flow through 2003.

In addition to continuing routine production operations at NPR-3 for the next 3-4 years, DOE also will continue a phased abandonment and reclamation of the facility. Included in this project, which began in 1998, are the sale of surplus equipment no longer needed for production operations and the use of equipment and staff for both ongoing production operations and reclamation to minimize the cost of each activity.

While the net revenues from production operations at NPR-3 and the salvage of surplus equipment, which are deposited in the U.S. Treasury, are not significant in the context of the overall Federal budget, they nonetheless help to offset abandonment and reclamation costs and contribute to the overall budget surplus. Discontinuing production at NPR-3 at this time would result in the loss of this net revenue stream, and the Government would incur immediate additional costs, estimated at several million dollars, to complete work on the initial phases of the abandonment and restoration of the facility.

Given the nature of its underground crude oil reservoirs, NPR-3 almost certainly could not be reopened economically if it were shut in. Once closed, it would remain closed, and several million barrels of oil that could be recovered under continuing production operations would be lost and remain unproduced.

Continued production of NPR-3 would extend current wage, tax and social benefits to the regional economy in and around Casper, Wyoming. If production is discontinued, the area economy would suffer direct and indirect job losses, losses in tax revenues, increased social welfare and unemployment costs, losses in real estate property values and the associated indirect effects on the tax base. The closure of NPR-3 also would adversely affect local oil field service companies.

EMERGENCY PREPAREDNESS

NPR-3 production rates are so small that there is no defense value or other national benefit in conserving the oil field for future use by shutting it in at this time. Although daily production from NPR-3 is less than 0.005 percent of daily consumption of crude oil in the U.S. and would have no measurable effect on mitigating oil supply interruptions, it is more important in the local context of Wyoming and could play a more significant role in a regional oil supply emergency.

CONCLUSION

Given the small but positive net cash flow to the U.S. Treasury, which would help offset the costs of abandoning and reclaiming the facility, and the local economic benefits, continued production of NPR-3 is in the national interest.

