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CONTINUED PRODUCTION OF THE NAVAL PETROLEUM RESERVES

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

NOTIFICATION OF HIS DECISION TO EXTEND THE PERIOD OF PRODUCTION OF THE NAVAL PETROLEUM RESERVES FOR A PERIOD OF THREE YEARS FROM APRIL 5, 2006, THE EXPIRATION DATE OF THE CURRENTLY AUTHORIZED PERIOD OF PRODUCTION, PURSUANT TO 10 U.S.C. 7422(c)(2)(B)

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To the Congress of the United States:

Consistent with section 7422(c)(2) of title 10, United States Code, 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, 2006, the expiration date of the currently authorized period of production.

Attached is a copy of the report prepared by my Administration investigating the necessity of continued production of the reserves consistent with section 7422(c)(2)(B) of title 10. In light of the findings contained in the report, I certify that continued production from the Naval Petroleum Reserves is in the national interest.

GEORGE W. BUSH.

THE WHITE HOUSE, *October 4, 2005.*

CONTINUED PRODUCTION OF THE NAVAL PETROLEUM RESERVES BEYOND APRIL 5, 2006

BACKGROUND

The Naval Petroleum Reserves Production Act of 1976 (Pub. L. 94–258) directed that what were then the three 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 George H. W. Bush exercised his authority once; President Clinton three times; and President George W. Bush most recently in 2002. As a result, production from the Reserves has been continuously authorized since 1976 and is currently authorized through April 5, 2006.

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

- Continue production at the maximum efficient rate for up to three years beyond April 5, 2006, 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.

The National Defense Authorization Act for Fiscal Year 1996 (Pub. L. 104–106) required the Department of Energy (DOE) to sell the Government's interest in Naval Petroleum Reserve No. 1 (NPR–1, or Elk Hills), located in Kern County, California. To comply with this requirement, DOE conducted a competitive bidding process, and in February 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 Reserves, Naval Petroleum Reserve No. 3 (NPR–3, also known as Teapot Dome)—a small, mature stripper field located near Casper, Wyoming. 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 from Naval Petroleum Reserve No. 2 (NPR–2, Buena Vista Hills, in Kern County, California) is not analyzed in this report because that Reserve is not covered by the relevant provision of Pub. L. 94–258 (10 U.S.C. 7422(c)), and the Government's productive acreage on NPR–2 has been leased since the 1920s.

In addition, section 331 of the recently-enacted Energy Policy Act of 2005 transferred administrative jurisdiction and control over all public domain lands in NPR–2 (with certain limited exceptions) from DOE to the Department of the Interior for management in accordance laws governing management of the public lands. Production at NPR–2 is expected to continue under the terms of the new Energy Policy Act.

CONTINUED PRODUCTION OF NPR–3

Economic impacts

NPR–3 is a mature crude oil stripper field (i.e., 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). Actual production from all wells during FY 2005 has averaged 420 barrels of oil per day. As a result of an average crude oil sales price of over $49 per barrel, FY 2005 revenues from the sale of the produced oil and natural gas liquids will yield nearly $8 million. Based on FY 2005 budget authority, direct and overhead operational costs are anticipated at $6 million, resulting in revenues to the U.S. Treasury which exceeds the cost to operate the field by $2 million in FY 2005. NPR–3 should continue to generate revenues which exceed the cost to operate the field through the period of this report based on assumptions which include: (1) crude oil sales price assumptions included in the Mid-Session Review of the FY 2006 Budget; (2) suspension of all capital investment projects (although this would result in an annual decline rate in oil production of 9 percent); (3) the return of temporarily shut-in wells to production; and (4) continued emphasis on reducing operating and overhead costs.

Co-located at NPR–3, and utilizing the same production and processing facilities, is the Rocky Mountain Oilfield Testing Center (RMOTC), a program initiated by DOE in 1994. Conducted largely in cooperation with private industry and academic institutions through cost-shared projects, RMOTC provides for the development and demonstration of enhanced oil recovery techniques, production tools and processes, and environmental compliance technologies that can be transferred to and utilized by the domestic oil and gas industry. An additional benefit to NPR–3 is that testing successful technologies provides increased production and reduced operating costs directly to NPR–3, thus positively impacting the economic performance of the field.

To decrease field operating costs and maintain a position of revenues exceeding costs for the oil field operations at NPR–3, 300 wells have been plugged and abandoned in the past seven years. The remaining 690 wells will continue to be maintained as long as they are economically viable. In addition, several test batteries and production facilities have been demolished and restored, further lowering operating costs.

While the revenues from production operations at NPR–3 and the salvage of surplus equipment are not significant in the context of the overall Federal budget, they nonetheless provide a positive impact to the U.S. Treasury. Discontinuing production at NPR–3 at

this time would result in the loss of the revenue stream and the acceleration of work and costs for abandonment and restoration of the field to comply with state regulations.

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 more than 500,000 barrels of oil that could be recovered under continuing production operations would likely be lost as unrecoverable.

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. Daily production from NPR–3 is only slightly more than 0.003 percent of daily consumption of crude oil in the U.S. and would have no measurable effect on mitigating oil supply interruptions.

CONCLUSION

Given that the revenues generated and deposited into the U.S. Treasury exceed the cost to operate the Teapot Dome Field, continued production of Naval Petroleum Reserve No. 3 beyond April 5, 2006, is in the national interest.

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