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Interior, Energy Departments Sign New Contracts toUse Federal Royalty Oil to Refill Strategic Petroleum Reserve

Contracts to Add 9.3 Million Barrels to Nation's Emergency Oil Inventory

Today, the Departments of Interior and Energy put into effect four new contracts that will add another 9.3 million barrels of federal royalty oil to the Strategic Petroleum Reserve, the nation's emergency crude oil stockpile.

The contracts are part of an initiative announced in February by Secretary of the Interior Bruce Babbitt and Secretary of Energy Bill Richardson to use royalty oil taken in-kind from federal leases in the Gulf of Mexico to replenish crude oil previously sold from the reserve for non-emergency purposes.

Combined with similar contracts awarded in March and April, the new agreements bring the amount of oil to be transferred into the reserve to 13.2 million barrels. Another competition will be conducted later this year to choose additional contracts that will meet the Administration's target of transferring approximately 28 million barrels of royalty-in-kind crude oil to the reserve.

The new contracts are with:

- Equiva Trading Company, Houston, TX
- Vastar Resources Inc., Houston, TX
- Vitol S.A. Inc., Houston, TX
- Mobil Supply, Trading and Transportation, Fairfax, VA

Today's contracts are the first to be awarded in a competitive process open to all companies holding leases in the federal waters of the Gulf and to oil traders that deal with offshore producers.

The earlier contracts were negotiated with four of the largest companies operating in the Gulf--Texaco and Shell (represented by Equiva), BP-Amoco, and Exxon -- in an effort to get the royalty oil initiative off to a fast start. Deliveries of the nearly 4 million barrels of crude oil from these initial contracts will be completed by August. At that point, the Strategic Reserve will begin accepting oil from the newest set of contracts. The crude oil will be delivered from August through next February.

The government decided to split the second, competitive phase of the initiative into multiple rounds to ensure that it received the best terms for the crude oil from the largest possible pool of available leases.

Under the initiative’s guidelines, winning offerors can send the reserve specification-grade crude oil produced elsewhere in exchange for oil actually produced from offshore platforms. The quality of oil delivered to the reserve is adjusted to account for transportation expenses from the federal lease and for quality differences. The exchange ratio is negotiated between the government and the offerors. Today's contracts were selected on the basis of the exchange ratios that provide the best value to the government.

Before the royalty oil initiative began, the Strategic Reserve held 561 million barrels of crude oil in underground storage sites along the Texas and Louisiana coastline.

MMS is the federal agency that manages the Nation’s natural gas, oil and other mineral resources on the Outer Continental Shelf; and collects, accounts for, and last year disbursed about $6 billion in revenues from federal offshore mineral leases and from onshore mineral leases on federal and Indian lands.

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