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FOR RELEASE ON DELIVERY
EXPECTED AT 10 A.M.
JUNE 11, 1986STATEMENT OF
JAMES DUFFUS III
ASSOCIATE DIRECTOR
RESOURCES, COMMUNITY, AND ECONOMIC
DEVELOPMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON FOSSIL AND SYNTHETIC FUELS
HOUSE COMMITTEE ON ENERGY AND COMMERCE
AND THE
SUBCOMMITTEE ON INVESTIGATIONS
HOUSE COMMITTEE ON ARMED SERVICES

Mr. Chairman and members of the Subcommittees, we appreciate the opportunity to participate in this hearing and provide comments on the sales of crude oil by the Department of Energy (DOE) from the Elk Hills Naval Petroleum Reserve (NPR) located in central California. Specifically, you asked us to summarize the information contained in our May 9, 1986, fact sheet developed at your request.¹ Our fact sheet included sales data from October 1, 1985 through April 23, 1986. For the hearing today, we updated the sales data through May 1986.

¹Naval Petroleum Reserves: Sales Procedures and Prices Received for Elk Hills Oil (GAO/RCED-86-163FS, May 9, 1986).

The Elk Hills NPR is the seventh largest domestic producing oil field in the United States. The federal government owns about 78 percent of the field and Chevron USA owns the remaining 22 percent. The Naval Petroleum Reserves Production Act of 1976 (Public law 94-258) authorized and directed that the Elk Hills field be explored and developed to its full economic and production potential and produced at its maximum efficient rate (MER) for 6 years. Continued production after that period was dependent on a presidential determination that it is in the national interest to do so. In October 1984 the President determined that production at MER should continue through April 5, 1988. From July 1976, when Elk Hills first started producing, through September 1985, nearly 474 million barrels of oil had been produced. Net revenues to the government from operating Elk Hills have totaled over \$9 billion.

DOE sells its share of Elk Hills crude oil production under 6-month contracts on the open market by competitive bidding as provided for by the Naval Petroleum Reserves Production Act. The invitations for bid are sent out 3 months in advance of the contract period. Based on anticipated oil needs and a perception of where prices are likely to be during the contract period, prospective buyers submit bids specifying the quantity of oil to be purchased and the bonus or discount from DOE's base price that they are willing to pay.

DOE computes its base price for Elk Hills oil from Crude Oil Price Schedules sent to producers by the major oil companies operating in the central California area. These price schedules

reflect the prices the companies are willing to pay for a specified oil quality and become the "posted" price for that oil until superceded by a subsequent offering. DOE establishes its base price for contract purposes by taking the average of the highest three posted prices. As the NPR oil is produced and delivered, the net price per barrel is determined by taking the DOE base price and adjusting it for the contract bonus or discount and the quality of the oil.

Our May 1986 report noted that during the period October 1, 1985, through April 1, 1986, DOE sold about 86,000 barrels of oil per day under its contracting procedures. The bids submitted by prospective buyers included discounts from DOE's base price that the buyers wanted applied to deliveries during the 6-month contract period. The contracts awarded by DOE for the 86,000 barrels per day contained discounts from DOE's base prices ranging from 19.7 cents to \$1.16 per barrel.

From October 1, 1985, through February 5, 1986, posted oil prices remained fairly stable, ranging from \$24.88 to \$24.95 per barrel. Consequently, DOE's base prices and its net selling prices also remained fairly stable. By early February, the posted prices in California began to decline, reflecting the decrease in world spot market oil prices that had been occurring since December 1985. As a consequence, DOE's base price for NPR oil dropped from \$23.51 on February 10, 1986, to \$14.47 on April 3, 1986, with the actual sales price further reduced by the amount of the contractual discounts. However, because the discounts were relatively small--19.7 cents to \$1.16 per barrel--these NPR oil

sale prices were still generally comparable to the posted prices being offered by major oil companies in California for oil of comparable quality and were generally higher than prevailing spot market prices.

The difference between the NPR sales prices and the oil companies' posted prices markedly increased after April 1, 1986, when the new contract terms for the April 1 through October 1, 1986, period went into effect. In December 1985, DOE issued invitations to bid on purchases of 82,000 barrels of oil per day during the April to October period. Although the posted prices in central California had not yet reflected the decline in world oil prices, DOE officials said the uncertainty about future oil supplies and prices resulted in bidders specifying much larger discounts than were previously bid. For the 104 separate bid offers received, the discounts ranged from a low of \$0.87 to a high of \$12.58 per barrel for over 186,000 barrels of NPR oil.

DOE awarded 15 new contracts for the 6-month period, with the largest discount offer accepted amounting to \$6.98. As the sales schedule in our report shows, these contract awards resulted in DOE selling Elk Hills oil in April 1986 for prices ranging from \$6.30 to \$11.27 per barrel.

As you requested, Mr. Chairman, we updated the NPR sales data through May 28, 1986. These data show that posted prices for April continued at the same level through May. We noted some small increases and decreases in DOE's base prices and the actual selling prices. DOE officials told us that these variations were

due to oil quality adjustments on individual deliveries. A listing of the crude oil contract sales for April and May is attached to this statement.

Without amendments to, or cancellations of, the present contracts, Mr. Chairman, the relatively large discounts from DOE's base oil prices will continue to apply to all oil deliveries through October 1, 1986.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions.

ELK HILLS CRUDE OIL PRICES FOR DOE BILLINGS
MADE APRIL 8, 1986, THROUGH MAY 28, 1986

<u>Company</u>	<u>Billing date</u>	<u>Barrels lifted^a</u>	<u>DOE base price</u>	<u>Contract discount</u>	<u>Average price paid^b</u>
----- (dollars per barrel) -----					
Alliance Oil and Refining Co.	4-09-86	6,550	\$13.80	\$6.98	\$6.82
	4-16-86	5,853	13.32	6.98	6.34
	4-23-86	5,835	13.28	6.98	6.30
	5-01-86	6,696	13.23	6.98	6.25
	5-06-86	5,150	13.25	6.98	6.27
	5-13-86	5,898	13.29	6.98	6.31
	5-20-86	5,217	13.21	6.98	6.23
	5-23-86	2,195	13.21	6.98	6.23
	5-27-86	2,817	13.21	6.98	6.23
Beacon Oil Co.	4-09-86	7,711	13.80	6.949	6.85
	4-16-86	6,980	13.32	6.949	6.37
	4-23-86	6,868	13.28	6.949	6.33
	5-06-86	6,060	13.25	6.949	6.30
	5-13-86	6,940	13.29	6.949	6.34
	5-20-86	6,140	13.21	6.949	6.26
	5-23-86	2,583	13.21	6.949	6.26
	5-27-86	3,315	13.22	6.949	6.27
Bemico Corp.	4-08-86	7,340	13.80	5.79	8.01
	4-15-86	9,188	13.21	5.79	7.42
	4-22-86	8,803	13.19	5.79	7.40
	5-01-86	12,491	13.19	5.79	7.40
	5-05-86	4,952	13.15	5.79	7.36
	5-12-86	7,844	13.20	5.79	7.41
	5-19-86	8,470	13.15	5.79	7.36
	5-28-86	11,133	13.15	5.79	7.36
Caljet, Inc.	4-10-86	12,494	13.70	4.985 ^c	8.72
	4-16-86	14,684	13.20	4.985 ^c	8.22
	4-23-86	13,205	13.17	4.985 ^c	8.18
	5-01-86	18,320	13.19	4.985 ^c	8.20
	5-06-86	15,733	13.45	4.985 ^c	8.46
	5-13-86	21,202	13.84	4.985 ^c	8.85
	5-20-86	20,649	13.81	4.985 ^c	8.82
	5-27-86	18,201	13.82	4.985 ^c	8.83
Champlin Petroleum Co.	4-08-86	86,662	13.80	4.825 ^c	8.97
	4-15-86	108,476	13.21	4.825 ^c	8.38
	4-22-86	103,939	13.19	4.825 ^c	8.37
	5-01-86	147,483	13.19	4.825 ^c	8.36
	5-05-86	58,475	13.16	4.825 ^c	8.33
	5-12-86	92,622	13.21	4.825 ^c	8.38
	5-19-86	100,018	13.15	4.825 ^c	8.32
	5-28-86	131,456	13.16	4.825 ^c	8.33

<u>Company</u>	<u>Billing date</u>	<u>Barrels lifted^a</u>	<u>DOE base price</u>	<u>Contract discount</u>	<u>Average price paid^b</u>
			————(dollars per barrel)————		
Crysen Trading & Marketing, Inc.	4-08-86	8,599	\$13.80	\$5.043 ^c	\$8.75
	4-09-86	15,116	13.70	5.043 ^c	8.66
	4-09-86	27,196	13.70	5.043 ^c	8.66
	4-15-86	10,763	13.21	5.043 ^c	8.16
	4-16-86	14,932	13.24	5.043 ^c	8.20
	4-16-86	31,964	13.20	5.043 ^c	8.16
	4-22-86	10,313	13.19	5.043 ^c	8.15
	4-23-86	14,994	13.20	5.043 ^c	8.16
	4-23-86	28,743	13.17	5.043 ^c	8.13
	5-01-86	14,634	13.18	5.043 ^c	8.14
	5-01-86	39,877	13.18	5.043 ^c	8.14
	5-01-86	18,835	13.18	5.043 ^c	8.14
	5-05-86	11,787	13.15	5.043 ^c	8.11
	5-06-86	14,844	13.16	5.043 ^c	8.12
	5-06-86	10,050	13.19	5.043 ^c	8.15
	5-12-86	18,671	13.20	5.043 ^c	8.16
	5-13-86	18,974	13.21	5.043 ^c	8.17
	5-13-86	13,543	13.17	5.043 ^c	8.13
	5-19-86	20,162	13.15	5.043 ^c	8.11
	5-20-86	20,285	13.16	5.043 ^c	8.12
5-27-86	20,311	13.15	5.043 ^c	8.11	
5-27-86	11,626	13.15	5.043 ^c	8.11	
5-28-86	26,499	13.15	5.043 ^c	8.11	
Edgington Oil Co., Inc.	4-08-86	34,664	13.80	3.371 ^c	10.43
	4-15-86	43,389	13.21	3.371 ^c	9.84
	4-22-86	41,575	13.19	3.371 ^c	9.82
	5-01-86	58,992	13.19	3.371 ^c	9.82
	5-05-86	23,386	13.15	3.371 ^c	9.78
	5-12-86	37,043	13.20	3.371 ^c	9.83
	5-19-86	40,001	13.15	3.371 ^c	9.78
	5-28-86	52,574	13.15	3.371 ^c	9.78
Golden West Refining Co.	4-08-86	29,011	13.80	5.0735	8.72
	4-15-86	36,314	13.21	5.0735	8.13
	4-22-86	34,795	13.19	5.0735	8.12
	5-01-86	49,372	13.18	5.0735	8.11
	5-05-86	19,570	13.15	5.0735	8.08
	5-12-86	30,998	13.20	5.0735	8.13
	5-19-86	33,473	13.08	5.0735	8.01
	5-28-86	43,995	13.15	5.0735	8.08

<u>Company</u>	<u>Billing date</u>	<u>Barrels lifted^a</u>	<u>DOE base price</u>	<u>Contract discount</u>	<u>Average price paid^b</u>
----- (dollars per barrel) -----					
Kern Oil & Refining Co.	4-08-86	53,612	\$13.80	\$5.80	\$8.00
	4-15-86	67,106	13.21	5.80	7.41
	4-22-86	64,300	13.19	5.80	7.39
	5-01-86	91,237	13.19	5.80	7.39
	5-05-86	31,165	13.15	5.80	7.35
	5-06-86	6,735	13.19	5.80	7.39
	5-12-86	49,364	13.20	5.80	7.40
	5-13-86	9,075	13.17	5.80	7.37
	5-19-86	53,306	13.15	5.80	7.35
	5-20-86	8,839	13.14	5.80	7.34
5-27-86	7,791	13.15	5.80	7.35	
5-28-86	70,061	13.15	5.80	7.35	
Lunday-Thagard Co.	4-08-86	23,107	13.80	4.28 ^c	9.52
	4-15-86	28,923	13.21	4.28 ^c	8.93
	4-22-86	27,714	13.19	4.28 ^c	8.91
	5-01-86	39,324	13.19	4.28 ^c	8.91
	5-05-86	15,592	13.15	4.28 ^c	8.87
	5-12-86	24,698	13.20	4.28 ^c	8.92
	5-19-86	26,669	13.15	4.28 ^c	8.87
	5-28-86	35,052	13.15	4.28 ^c	8.87
Macmillan Ring- Free Oil Co., Inc.	4-08-86	7,105	13.80	5.38	8.42
	4-15-86	8,894	13.21	5.38	7.83
	4-22-86	8,522	13.19	5.38	7.81
	4-22-86	3,537	13.07	4.87	8.20
	5-01-86	12,092	13.19	5.38	7.81
	5-01-86	3,494	13.32	5.38	7.94
	5-05-86	4,794	13.15	5.38	7.77
	5-06-86	6,128	13.49	4.87	8.62
	5-12-86	7,594	13.44	4.87	8.57
	5-13-86	6,940	14.46	4.87	9.59
	5-14-86	3,040	13.41	5.38	8.03
	5-19-86	8,200	13.15	5.38	7.77
	5-20-86	6,140	14.38	4.87	9.51
	5-23-86	2,583	14.38	4.87	9.51
5-28-86	10,778	13.39	4.87	8.52	

<u>Company</u>	<u>Billing date</u>	<u>Barrels lifted^a</u>	<u>DOE base price</u>	<u>Contract discount</u>	<u>Average price paid^b</u>
----- (dollars per barrel) -----					
Newhall Refining Co., Inc.	4-08-86	57,777	\$15.59	\$4.318 ^C	\$11.27
	4-09-86	22,911	13.80	4.318 ^C	9.49
	4-09-86	13,267	13.80	4.318 ^C	9.49
	4-15-86	73,320	13.21	2.524 ^C	10.68
	4-16-86	31,964	13.32	4.318 ^C	9.00
	4-16-86	15,546	13.28	4.318 ^C	8.96
	4-22-86	69,295	13.19	2.524 ^C	10.67
	4-23-86	13,756	13.27	4.318 ^C	8.95
	4-23-86	20,407	13.28	4.318 ^C	8.96
	5-01-86	98,325	13.18	2.524 ^C	10.66
	5-01-86	23,421	13.23	4.318 ^C	8.91
	5-01-86	17,219	13.20	4.318 ^C	8.88
	5-05-86	38,982	13.15	2.524 ^C	10.63
	5-06-86	24,560	13.25	4.318 ^C	8.93
	5-12-86	61,747	13.20	2.524 ^C	10.68
	5-13-86	31,255	13.30	4.318 ^C	8.98
	5-19-86	66,677	13.15	2.524 ^C	10.63
	5-20-86	29,721	13.21	4.318 ^C	8.89
	5-27-86	35,880	13.25	4.318 ^C	8.93
5-28-86	87,635	13.15	2.524 ^C	10.63	
Oxbow Resources, Inc.	4-08-86	28,886	13.80	3.75 ^C	10.05
	4-15-86	36,156	13.21	3.75 ^C	9.46
	4-22-86	34,644	13.19	3.75 ^C	9.44
	5-01-86	49,158	13.19	3.75 ^C	9.44
	5-05-86	19,489	13.15	3.75 ^C	9.40
	5-12-86	30,870	13.20	3.75 ^C	9.45
	5-19-86	33,335	13.15	3.75 ^C	9.40
	5-28-86	43,813	13.15	3.75 ^C	9.40
Sound Refining Co.	4-08-86	28,845	13.83	4.2248 ^C	9.60
	4-09-86	43	13.73	4.2248 ^C	9.51
	4-15-86	36,106	13.21	4.2248 ^C	8.98
	4-16-86	51	13.20	4.2248 ^C	8.98
	4-22-86	34,596	13.19	4.2248 ^C	8.97
	4-23-86	46	13.17	4.2248 ^C	8.95
	5-01-86	49,089	13.18	4.2248 ^C	8.96
	5-01-86	63	13.18	4.2248 ^C	8.96
	5-05-86	12,943	13.15	4.2248 ^C	8.93
	5-06-86	8,148	13.16	4.2248 ^C	8.94
	5-12-86	20,501	13.20	4.2248 ^C	8.98
	5-13-86	10,415	13.21	4.2248 ^C	8.99
	5-19-86	22,138	13.15	4.2248 ^C	8.93
	5-20-86	11,135	13.16	4.2248 ^C	8.94
	5-27-86	11,149	13.15	4.2248 ^C	8.93
5-28-86	29,096	13.15	4.2248 ^C	8.93	

<u>Company</u>	<u>Billing date</u>	<u>Barrels lifted^a</u>	<u>DOE base price</u>	<u>Contract discount</u>	<u>Average price paid^b</u>
----- (dollars per barrel) -----					
U.S. Oil & Refining Co.	4-08-86	5,778	\$13.80	\$4.31	\$9.49
	4-15-86	7,233	13.21	4.31	8.90
	4-22-86	6,930	13.19	4.31	8.88
	5-01-86	9,834	13.19	4.31	8.88
	5-05-86	3,897	13.15	4.31	8.84
	5-12-86	6,173	13.20	4.31	8.89
	5-19-86	6,666	13.15	4.31	8.84
	5-28-86	8,761	13.15	4.31	8.84

^aTotal barrels lifted (delivered) during billing period.

^bSome items do not subtract due to rounding.

^cDiscount represents the average of discounts bid where companies submitted separate bids for each successive increment of oil quantities purchased, i.e., the first 1,000 barrels, the second 1,000 barrels, etc.