

CONTINUED PRODUCTION OF THE NAVAL PETROLEUM  
RESERVES

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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 PE-  
RIOD OF THREE YEARS FROM APRIL 5, 2003, THE EXPIRATION  
DATE OF THE CURRENTLY AUTHORIZED PERIOD OF PRODUC-  
TION, PURSUANT TO 10 U.S.C. 7422(c)(2)(B)



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Committee on Armed Services and ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE



*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, 2003, the expiration date of the currently authorized period of production.

Enclosed is a copy of the report investigating the necessity of continued production of the reserves as required by section 201(3)(c)(2)(B) of the Naval Petroleum Reserves Production Act of 1976. 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 9, 2002.*



CONTINUED PRODUCTION OF THE NAVAL PETROLEUM RESERVES  
BEYOND APRIL 5, 2003

BACKGROUND

The Naval Petroleum Reserves Production Act of 1976 (Pub. L. 94-258) directed that what were then 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 Bush exercised his authority once, and President Clinton three times. As a result, production from the Reserves has been continuously authorized since 1976 and is currently authorized through April 5, 2003.

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

- Continue production at the maximum efficient rate for up to three years beyond April 5, 2003, or
- Shut in production at a level that would protect the reservoirs from ultimately losing oil reserves, perhaps indefinitely or until 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 the 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. Continued production from Naval Petroleum Reserve No. 2 (NPR-2, Beuna 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. Production at NPR-2 is expected to continue under the terms of the applicable leases 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 commer-

cial operating practices. That statute also authorizes DOE to dispose of NPR-2.

#### 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). During the first three quarters of FY 2002, total production from all wells averaged 650 barrels of oil per day. Revenues from the sale of the produced oil are expected to yield a net positive cash flow to the Federal Government of approximately \$2 million in FY 2002. NPR-3 should continue to yield a positive net cash flow through FY 2006 based on assumptions which include: (1) an estimated sales price of \$26-\$29 per barrel of oil; (2) implementation of a few capital investments (i.e., total cost between \$500,000 and \$1 million) to maintain the annual decline rate in oil production at 10-12 percent; and (3) continued emphasis on reducing operating and overhead costs.

In addition to continuing routine production operations at NPR-3 for the next three 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, which are estimated at \$10-\$15 million for the entire field plus an additional \$1-3 million in annual overhead expenses. Discontinuing production at NPR-3 at this time would result in the loss of the net 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 down. Once closed, it would remain closed, and several million barrels of oil that could be recovered under continuing production operations would likely be lost as unrecoverable.

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.

##### *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. 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 important in the local, State and regional context.

#### 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, continued production of NPR-3 is in the national interest.

