



U.S. DEPARTMENT OF
ENERGY

STRATEGIC PETROLEUM RESERVE

NORTHEAST GASOLINE SUPPLY RESERVE

SALE IMPLEMENTATION PLAN

FEBRUARY 24, 2015

**Office of Petroleum Reserves
United States Department of Energy
Washington, D.C. 20585**

STRATEGIC PETROLEUM RESERVE NORTHEAST GASOLINE SUPPLY RESERVE SALE IMPLEMENTATION PLAN

I. INTRODUCTION:

The Northeast Gasoline Supply Reserve (NGSR) has been established by the Department of Energy to provide an emergency supply of petroleum product stocks in the event of a supply shortage. The Department of Energy has established contracts with several companies for the storage and distribution of its petroleum product reserves.

II. BACKGROUND:

The Energy Policy and Conservation Act (Public Law 94-163) and authorizes the creation of a Strategic Petroleum Reserve for the storage of petroleum products to “diminish the vulnerability of the United States to the effects of a severe energy supply interruption, and provide limited protection from the short-term consequences of interruptions in supplies of petroleum products. In the event the President should make a finding of a “severe energy supply interruption,” or a circumstance that “constitutes, or is likely to become, a domestic or international energy supply shortage of significant scope or duration”, as defined by the Act, the Department of Energy (DOE) would sell and distribute some of the petroleum product contained in the Reserve. The plan set forth below will apply to any petroleum product sales from this Reserve with the exception of crude oil and distillate in the Northeast Home Heating Oil Reserve.

III. SALES METHOD:

The Department considered a number of alternative strategies for the sale of the petroleum product in the Reserve. Should the President order a drawdown of the Reserve, the Secretary may sell the product competitively by online auction.

Under the competitive sales process, applicants will submit bids over a specified time period via the Northeast Gasoline Supply Reserve web page. At the close of the offering, contract awards will be confirmed to successful bidders. Public announcement of the sale results will occur slightly later. In order to react as quickly as possible to an emergency situation, the Department anticipates that the sales process will be completed in no longer than two days.

A. Registration:

A list of potential bidders for a sale of petroleum product from the Strategic Petroleum Reserve is maintained by the Office of Petroleum Reserves, Washington, DC. Companies or individuals who desire prompt notification of an imminent petroleum product sale may register via the Northeast Gasoline Supply Reserve web site. They will receive notification by e-mail when the Presidential announcement has been made and the Notice of Sale is issued.

B. Sales Notification and Schedule:

Immediately following a finding by the President to draw down petroleum product under this plan, the Department will issue a Notice of Sale and notify all registered companies. The notice will be posted on the Northeast Gasoline Supply Reserve web site and specify the amount, characteristics and location of the petroleum product to be sold, procedures for submitting bids and the delivery period. Receipt of bids will begin as specified in the online posting.

Under the most likely scenario, the bidding will open the day after the Notice of Sale is posted. The platform will be open for 2-3 hours and close at approximately noon Eastern Time. Potential buyers will submit bids through the Department’s secure electronic sales platform. Bids will be anonymous to other bidders and will specify the quantity, location and price. Companies may submit multiple bids. A bidder must provide a financial guarantee of \$250,000 by electronic transfer to the location designated by the Notice of Sale prior to submission of his bids. The Department of Energy will verify guarantee receipt with the Department of Treasury. The financial guarantee must be received by the time specified in the Notice of Sale.

The values of the winning bids will be indicated on the auction platform. Following the auction close, contract award will be confirmed by the Department of Energy. Public announcement of companies with winning bids will occur the same day. Financial guarantees will be returned to unsuccessful bidders in five days.

A typical schedule for an online auction of petroleum product from the Northeast Gasoline Supply Reserve might be:

Day 1	Presidential Finding Notify registered companies and wire services Post Notice of Sale Begin receipt of financial guarantees
Day 2	
10:00 a.m.	Open bidding
Noon	Close bidding
2:30 p.m.	Public announcement of successful bidders

C. Volumes Offered, Purchaser Volume Restrictions:

The Notice of Sale will specify the maximum quantities to be sold from each terminal location and maximum quantity award restrictions per company. The Department will determine the total volume of petroleum product to be offered based on market conditions at the time of the sale. Bids must be expressed in multiples of 50,000 barrels. Multiple bids may be submitted, but no one company will be awarded more than 40 percent of the product offered. This limitation is

intended to prevent any potential for a monopoly position in the resale of the product. The Department reserves the right to limit the total volume awarded based on the reasonableness of the bids (including not awarding any sales contracts).

A public briefing may be provided to interested firms prior to the notice of sale being posted on line. This briefing will explain to the firms how a bid is submitted.

D. Payment:

Petroleum product from the Reserve will be delivered on a prepaid basis only. The buyer will be required to remit payment to the Government within 48 hours following notification of award, or prior to taking delivery if less than 48 hours. The bid financial guarantee may be applied toward this payment. A failure to prepay may result in the Government selling the product to another party and forfeiture of the bid guarantee.

IV. DISTRIBUTION PLAN:

The distribution plan for petroleum products from the Northeast Gasoline Supply Reserve is based on maximum use of the commercial terminal infrastructure and industry procedures in place, since the greatest potential for efficient and expeditious distribution of the petroleum product stocks rests with the industry performing these functions.

Under the Government's storage contracts, the terminals have the responsibility to:

- provide inventory management and quality control of the Government's stocks;
- provide full availability of the Government's product in the event of a release;
- provide the capability to deliver all the Government's product within 10 days on a 24 hour notice; and
- provide the capability to distribute product by tanker/barge and truck facilities.

Distribution:

The Government's petroleum product will be sold and delivered to the buyer F.O.B. at the terminals specified in the Notice of Sale. The ownership of the petroleum product will be transferred to the buyer at the terminal, and the buyer will assume full responsibility for distribution arrangements. Subject to limitations of the terminal, buyers will be able to ship product by ship, barge, and truck. Descriptions of the available distribution capabilities for each terminal can be found in the Terminal Data Appendix of the Northeast Gasoline Supply Reserve Distribution Plan.

The buyer of the product will be responsible for all transportation arrangements and costs. All required federal excise taxes under IRS Publication 510 will be the responsibility of the Storage Contractor. Payment of excise taxes must be coordinated between the Storage Contractor and the Purchaser. Federal excise tax paid should be reflected on the Bill of Lading; DOE assumes no responsibility for the collection or payment of excise taxes. Within 24 hours of being awarded a product contract by the Department, the buyer must advise the Department and the terminals of

the desired delivery mode(s) and respective volumes. The buyer must make arrangements to have delivery of their product take place within ten days of award.

Vessel and barge nominations and assignment of lifting windows must be in accordance with the terminals' scheduling procedures. Truck liftings will be subject to terminal capacities and restrictions.