

**Statement of
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Committee on Natural Resources
Subcommittee on Energy and Mineral Resources**

**Oversight Hearing
*Implementation and Administration of the 2013 Helium Stewardship Act***

July 15, 2014

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify on the Federal helium program and the Bureau of Land Management's (BLM) implementation of the Helium Stewardship Act of 2013 (HSA). The HSA established the dates and the method of sales and auctions of Federal helium from the Federal Helium Reserve to be delivered beginning October 1, 2014. The BLM intends to hold by August 1, 2014 the Act's required Fiscal Year (FY) 2015 sale and auction and FY 2016 one-time sale, for helium to be delivered in those fiscal years.

Background

The BLM plays a key role in the careful management and stewardship of the only significant long-term storage facility for crude helium in the world, known as the Federal Helium Reserve. Helium is a critical, non-renewable natural resource that plays an important role in medical imaging, space exploration, military reconnaissance, fiber optics manufacturing, welding and commercial diving. The most common and economical way of capturing helium is by stripping it from natural gas during gas production. Geologic conditions in Texas, Oklahoma, and Kansas make the natural gas in these areas some of the most helium-rich in the United States, often ranging from 0.5 to 1.5 percent of the gas extracted during production. According to the National Academy of Sciences (NAS), helium's best known property, being lighter than air, means "that every unit of helium that is produced and used today will eventually escape the Earth's atmosphere and become one less unit available for use tomorrow."

As indicated by a NAS report published in early 2010, the market for helium has proven more volatile than expected over the last 15 years. The NAS report analyzed the relationship between supply and demand for helium on a domestic and international basis, as well as the BLM's management of the Federal Helium Reserve under the Helium Privatization Act of 1996 (HPA). The report concluded that the HPA mandated sell-off is negatively impacting the needs of both current and future users of helium in the United States. This conclusion was the driving force behind a series of recommendations in the report directed at the BLM and the United States Congress.

The Federal Helium Program

Because of helium's potential to lift military reconnaissance devices high above battlefields, the Federal government's interest in the resource dates back to World War I. Recognizing this key military use for helium, the Mineral Leasing Act of 1920 reserved to the Federal government all helium produced on Federal lands—a reservation that remains in effect today. After World War I, recognition of the potential for helium recovery in the Texas Panhandle, Western Oklahoma, and Kansas area (collectively, the "Hugoton" field) led to the development of the Federal helium program focused in that area. In 1929, the Bureau of Mines commissioned the Amarillo Helium Plant and Cliffside Gasfield Facility near Amarillo, Texas, to produce helium-bearing natural gas from a naturally occurring geologic field known as the Bush Dome Reservoir.

After World War II, Federal use of helium shifted toward space exploration, and in 1960 Congress passed the Helium Act Amendments. The 1960 amendments changed the program's mandate from exclusive government production of helium to conservation of the resource by encouraging private natural gas producers to sell extracted crude helium to the Federal government for storage in the Bush Dome Reservoir. The 1960 amendments granted the Bureau of Mines the authority to borrow funds from the U.S. Treasury to purchase the helium, with the expectation that the proceeds from future sales of helium would allow the Bureau of Mines to repay the debt. This borrowing authority, established by Congress in lieu of a direct appropriation, required the Bureau of Mines to repay the loan by 1985. Subsequent legislation extended the deadline to 1995.

The Federal demand for helium rarely, if ever, met the expectations underlying the terms of the Treasury's loan to the Bureau of Mines. When the 1995 deadline to pay off the debt arrived, the \$252 million the Bureau had spent on privately-produced helium had increased to \$1.3 billion (principal and interest), and the Bureau of Mines appeared to have little prospect of ever repaying the debt. In his 1995 State of the Union address, President Bill Clinton stated that it was his Administration's goal to privatize the Federal helium program.

Congress subsequently passed the Helium Privatization Act of 1996 (HPA), which required the BLM (which assumed jurisdiction over the program after the termination of the Bureau of Mines) to make available for sale the vast majority of the stockpile of crude helium. The mandate directed the BLM to begin selling helium no later than 2005, in order to avoid market disruption. The BLM was to make a consistent amount of helium available every year at a price based on the amount of remaining helium debt and the amount of helium in storage. When Congress passed the HPA, there was approximately 30.5 billion cubic feet (Bcf) of helium in storage in the Bush Dome Reservoir. The HPA mandated the BLM to make available for sale all of the helium in excess of a 600 million cubic feet (MMcf) permanent reserve. Also, under the HPA, once the debt was paid off, the revolving fund that was the source of operating funds was to be terminated. Repayment of the helium debt from helium sales and other operational revenue occurred in October 2013.

The BLM's Helium Operations

The BLM's current helium program, with a workforce of 51 full-time equivalents (FTE), operates not only the original storage and pipeline system, but also a crude helium enrichment unit, owned by private industry refiners, that facilitates transmission of helium to private helium operations on the BLM's helium pipeline. The BLM is responsible for administering helium extracted from Federal resources. These operations are not limited to the Hugoton gas field, but also occur in fields in Colorado, Wyoming, Utah, and any other state where producers extract helium from the Federal mineral estate. Additionally, the BLM is responsible for administering the sell-off of crude helium. The agency also conducts domestic and, to a lesser extent, international helium resource evaluation and reserve tracking to determine the extent of available helium resources.

Another major part of BLM's helium program is the "In-Kind" program, which supplies helium to Federal agencies (e.g., the Department of Energy and NASA) or their contractors for operations and/or research. Before the HPA, Congress required Federal agencies to purchase their refined helium supplies from the Bureau of Mines. Under the current In-Kind program, Federal agencies and their contractors generally purchase all of their refined helium from private suppliers who, in turn, are required to purchase an equivalent amount of crude helium from the Federal Helium Reserve. In 2013, Federal agencies purchased approximately \$8.7 million of helium through the In-Kind program, down slightly from approximately \$10.3 million in 2012.

The Helium Stewardship Act of 2013

On October 2, 2013, President Obama signed the HSA. The HSA addressed many of the concerns that the 2010 NAS report identified regarding the Federal government's involvement in the helium market. Most importantly, the HSA created a set of phased authorities for the BLM's management of the Helium Reserve, establishing a "glide path" from the sales mandated under the Helium Privatization Act of 1996, to a scenario where 3 Bcf of helium would be reserved solely for Federal users. The act also ensures continued access to Federal crude helium, protecting long-term supply interests for the Federal Government; provides for an orderly transition to end Federal helium operations by 2021 with minimal market disruption to end users; and increases taxpayer returns while stimulating investment in private helium sources by increasing the sale price of Federal crude helium to more closely reflect market prices. The HSA also continues the funding for the Federal helium program.

Also under the HSA, in order to establish a fair market price for crude helium, all entities that are party to a contract with the Secretary for the acceptance, storage, and redelivery of crude helium are required to disclose the weighted average price for all their crude and bulk liquid helium transactions throughout the entire year. Strict confidentiality of these numbers is provided under the HSA. While the confidentiality of the individual parties is maintained, the ultimate result is still a published price for crude helium. It has been one of the unintended consequences of the Helium Privatization Act of 1996 that the BLM's published price for crude helium evolved into a market benchmark for the global price of helium. This consequence is likely to remain under the HSA.

Helium Sales Moving Forward

On March 6, 2014, the BLM conducted a scoping meeting in Amarillo, Texas, during which the agency requested comments and suggestions for conducting the FY 2015 helium sale and auction and the FY 2016 one-time sale that must be conducted by early August 2014 to meet HSA deadlines. The results of the scoping meeting and comments the BLM received were considered as it developed the implementation plan. On May 16, 2014, the BLM published the notice of proposed action for implementation of these sales and auction. The purpose of this notice was to inform the public of and request comments on the methods and procedures that the BLM intends to use to implement the terms of the HSA for the helium sales and auction that are to be conducted within the next several weeks. Comments regarding these sales and auctions were received by the BLM by the closing date of the comment period on June 16, 2014.

The BLM is implementing the HSA's statutory directives to sell helium from the Federal Helium Reserve to reduce the Reserve to a level of 3 Bcf of recoverable helium (not including privately stored helium) by 2021. This is to be accomplished with annual sales of diminishing volumes through 2021. The BLM also intends to offer over 92 MMcf for auction in late July 2014, for delivery in FY 2015. The minimum auction price is expected to be to be \$100 per Mcf. The auction will be a held "live" in Amarillo, Texas and anyone meeting the definition of a "qualified bidder" may participate. A qualified bidder is a person seeking to purchase helium for the person's own use, refining, or resale to users. Helium acquired at the July 2014 auction will be delivered to buyers starting October 1, 2014, assuming payment in full has been received.

Conclusion

The BLM has played a vital role in meeting future helium needs for the country, especially for Federal agencies that depend on helium for scientific research, aerospace projects, and defense purposes – and the agency is committed to orderly and effectively implementing the Helium Stewardship Act of 2013. I would be happy to answer any questions the Subcommittee may have.