

**Statement of
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**Before the
U.S. House of Representatives
Committee on Natural Resources
Subcommittee on Energy and Mineral Resources**

**Oversight Hearing
*“The Helium Stewardship Act and the Path Forward”***

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Chairman Lamborn, Ranking Member Lowenthal, 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 timeframes and the methods of sales and auctions of Federal helium to be delivered from the Federal Helium Reserve beginning October 1, 2014. On July 30, 2014, the BLM held the HSA’s required sale and auction for helium to be delivered in Fiscal Year (FY) 2015 and one-time sale for helium to be delivered in FY 2016. The BLM intends to hold a second sale and auction on August 19, 2015, for delivery in FY 2016.

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 (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 Reserve under the Helium Privatization Act of 1996 (HPA). The report concluded that the HPA mandated sell-off was 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 Gas Field 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 and infrastructure 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 HPA, which required the BLM (which assumed jurisdiction over the program after the termination of the Bureau of Mines in 1996) 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 that the BLM offer for sale all of the helium in excess of a 600 million cubic feet (MMcf) permanent reserve by 2015. 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. As of May 2015, there is about 6.7 Bcf of federally-owned helium and about 2.4 Bcf of privately-owned helium in the Reserve.

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, and Utah. The BLM is responsible for administering the sell-off of crude helium. It 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) and their contractors for operations and 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 Reserve. In 2014, Federal agencies purchased about 116.2 MMcf of helium through the In-Kind program, down slightly from 140.2 MMcf in 2013.

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 Reserve, establishing a "glide path" from the sales mandated under the HPA, to a scenario where 3 Bcf of helium would be reserved solely for Federal users. The HSA 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 continues the funding for the Federal helium program.

In order to establish a fair market price for crude helium, the HSA requires all entities that are party to a contract with the Secretary for the acceptance, storage, and redelivery of crude helium 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. One consequence of the HPA is that the BLM's published price for crude helium evolved into a market benchmark for the global price of helium. This has remained the case under the HSA.

Helium Sales & Auctions

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 required under the HSA. The BLM considered the results of the scoping meeting and comments received 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 intended to use to implement the terms of the HSA for the first helium sales and auction held on July 30, 2014. The sales and auction generated over \$130 million in revenue. The BLM intends to hold a second sale and auction on August 19, 2015, for delivery in FY 2016 and published a draft helium sale notice for comment on June 12, 2015, in the Federal Register.

The BLM is implementing the HSA's statutory directives to sell helium from the Reserve to a level of 3 Bcf of recoverable helium (not including privately stored helium) by 2021. This will be accomplished with annual sales and auctions of decreasing volumes through 2021. Anyone meeting the statutory definition of a "qualified bidder" may participate in the helium auctions. A qualified bidder is a person seeking to purchase helium for the person's own use, refining, or resale to users.

GAO Report

In April 2015, the Government Accountability Office (GAO) issued a report titled "More Information Needed to Implement the Helium Stewardship Act of 2013." The report contained two recommendations directed to the BLM – one related to an assessment of auction methods and the other related to tolling agreements. With respect to the assessment of auction methods, the BLM generally agreed with the GAO's findings and concurred with the recommendation to evaluate auction formats to determine which format would maximize revenue. The BLM's economists are currently developing a report that will evaluate various auction methods in the context of the current helium market to determine which method is most appropriate to maximize revenue. The results of this report will be used by the BLM as the basis for choosing the auction method for upcoming sales.

With respect to the GAO's recommendation regarding tolling, the BLM did not concur with the recommendation to issue a rule to require refiners to report about their attempts to negotiate tolling agreements because the BLM does not believe such a rule is necessary. To address the concern raised by the GAO, BLM believes a more effective means is through a Federal Register Notice request. Specifically, the Final Notice for the Crude Helium Sale and Auction for fiscal year (FY) 2016 delivery is scheduled to be published in late July 2015 and will include a request that refiners voluntarily report tolling arrangements. In the past, similar requests have resulted in the BLM collecting the information it needs with respect to tolling. The BLM believes that this approach will provide the information needed in timely manner, as compared to a rulemaking process that would not likely be concluded until the program was nearing its conclusion.

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.