

ANNUAL REPORT TO CONGRESS

THE HELIUM STEWARDSHIP ACT OF 2013

PUBLIC LAW 113-40,

AS AUTHORIZED UNDER 50 U.S.C. 167

FISCAL YEAR 2016

BY

THE SECRETARY OF THE INTERIOR

JANUARY 2017

1. Executive Summary

The Department of the Interior's (DOI) Bureau of Land Management (BLM), New Mexico State Office currently manages the Federal Helium Program. The BLM's Amarillo Field Office conducts day-to-day operations of the program.

This report provides information required by the Helium Stewardship Act of 2013 (HSA), Public Law 113-40. The HSA extensively amended the Helium Act, 50 U.S.C. §§ 167 *et seq.*, as amended. Specifically, this report addresses the requirements of Section 6(e)(4) of the HSA, which requires an annual financial report to be submitted to the Committee on Energy and Natural Resources of the Senate and the Committee on Natural Resources of the House of Representatives (Committees). Accordingly, this report includes discussion of the BLM's implementation of the HSA during Fiscal Year (FY) 2016 including the BLM's execution of a new storage contract that fulfills the BLM's obligations for storage, acceptance, and delivery of helium in the Federal Helium System. Also included is discussion of imposed fees associated with services, and establishment of a process for compliance with reporting requirements of the HSA; and the approval by the Office of Management and Budget of the forms used to collect information relative to helium sales and utilization.

The BLM offered helium volumes in three distinct sales in FY 2016 for delivery in FY 2017:

- FY 2017 delivery 'Phase B' auction, conducted in July 2016, of 400 million cubic feet (MMcf) in 24 lots, for a total of \$42,840,000. The helium auctioned represented over 40 percent of the total volume that the BLM will make available from the Reserve in FY 2017. This met the 40 percent auction requirement mandated in the HSA.
- FY 2017 delivery Phase B non-allocated sale, conducted in August 2016, of 60 MMcf for \$6,420,000.
- FY 2017 delivery Phase B allocated sale, conducted in August 2016, of 540 MMcf for \$57,780,000.

The total volume of helium sold, excluding in-kind sales of helium to Federal users, was 1,000 MMcf, and the total revenue generated from helium sales in FY 2016 was \$107,040,000. The BLM's Cliffside Helium Enrichment Unit (CHEU) operated for 258 days in FY 2016, or 75.88 percent of BLM's target for operating 340 days per year. The lower production from the plant was due to the helium industry demand being significantly lower for the months of October, November, and December 2015, and a portion of January 2016. This was a very unusual circumstance, and the BLM will maintain the target for FY 2017 at 340 operating days. The BLM Amarillo Field Office restarted the plant in mid-January 2016 to meet refiner requirements for crude helium.

The total assets of the Federal Helium Program, as of September 30, 2016, were \$342,377,217.86. Total liabilities were \$91,220,288.17 (accounts payable and customer advances), leaving a positive net worth of \$251,156,929.69.

In the Federal Register Notice announcing the helium sales during FY 2016 for delivery in FY 2017, the BLM published the sale and auction price of helium that the BLM established using the priority order required by the HSA (50 U.S.C. § 167d(b)(7)).

2. Nature and Scope of the Report

This report provides a general status of the BLM's implementation of the HSA's requirements and details progress made during FY 2016. Specifically, this report addresses the financial reporting requirements of Section 6(e) (4) of the HSA, which provides:

- Report. Not later than, one year after the date of enactment of the Helium Stewardship Act of 2013 and annually thereafter. The Secretary of the Interior shall submit to the Committee on Energy and Natural Resources of the Senate and the Committee on Natural Resources of the House of Representatives a report describing all expenditures by the BLM to carry out this Act. 50 U.S.C. §167d (e) (4).

Consistent with that direction, this report contains operating, statistical, and financial information about the program for FY 2016, ending September 30, 2016.

3. Implementation of the Helium Stewardship Act

The important implementation requirements imposed by the HSA, and BLM's associated activities in FY 2016, included the following:

- Price-Setting. The HSA requires the BLM to establish annually, as applicable, separate sale and minimum auction prices for Phase B sales using, if applicable and in the following order of priority. The sale price of crude helium in the BLM's auctions. Price recommendations and disaggregated data from a qualified, independent third party who has no conflict of interest and who conducted a confidential survey of qualifying domestic helium transactions (as defined in 50 U.S.C. § 167(10)). The volume-weighted average price of all crude helium and pure helium purchased, sold, or processed by persons in all qualifying domestic helium transactions. Finally, the volume-weighted average cost of converting gaseous crude helium into pure helium (50 U.S.C. §167d (b) (7)).
 - FY 2016 Progress. In the Federal Register Notice announcing the helium sales during FY 2015 for delivery in FY 2016, and again in the Federal Register Notice announcing helium sales during FY 2016 for delivery in FY 2017, the BLM confirmed its application of this priority order for setting the price of helium sold.

- Disclosure. The HSA directs the BLM to require all persons that have storage contracts with the BLM for privately owned helium in the reserve to disclose, on a strictly confidential basis the following information. The volumes and associated prices of all crude and pure helium purchased, sold, or processed by persons in qualifying domestic helium transactions. The volumes and associated costs of converting crude helium into pure helium. Finally, refinery capacity and future capacity estimates (50 U.S.C. §167 d (b) (8) (A)). In addition to the aforementioned, the HSA directs that, as a condition of sale or auction to a refiner by the BLM, the “refiners shall make excess refining capacity of helium available at commercially reasonable rates” (50 U.S.C. § 167d (b) (8) (B)).
 - FY 2016 Progress. The BLM Amarillo Field Office staff worked with key personnel from the BLM New Mexico State Office, BLM Washington Office, and Regional/DC Department of the Interior Solicitor’s Offices, to revise the existing storage contracts that delineate responsibilities for acceptance, storage, and delivery of crude helium between the BLM and private owners of crude helium within the Federal Helium System. The new contract aligns with the provisions of the HSA and includes definitions consistent with a new fee structure, delivery methodology, reporting criteria, and reporting mechanisms that meet the disclosure requirement. This new contract also provides a provision addressing the potential transfer of the Federal Helium System and the United States’ obligation to deliver private crude helium upon disposal of the Federal Helium System, mandated to occur by September 30, 2021. Each entity that takes delivery of and stores helium in the Federal Helium System executed a new uniform helium storage contract on the first day of FY 2016. The contracts are effective beginning October 1, 2015 for a term of three years, with annual renewal options through September 30, 2021.
- Minimum Quantity. The HSA establishes a minimum quantity of crude helium that the BLM is required to offer for sale or auction each FY. Specifically, the amount of crude helium to be offered must be the lesser of, the quantity of crude helium offered for sale by the Secretary of the Interior during FY 2012, or the maximum total production capacity of the Federal Helium System, which includes the pipeline (50 U.S.C. §167d(f)).
 - FY 2016 Progress. The BLM once again offered for sale and auction the quantity of crude helium equal to the maximum total production capacity of the Federal Helium System.
- Additional Information. The BLM contracted an independent third party to conduct a market survey in order to set the reserve price at auction and assist in pricing for the sale in FY 2016 for delivery in FY 2017. This survey collected helium price and volume data for “qualifying domestic helium transactions” to document the price of helium for the purchase and/or sale of crude or pure helium as defined by the HSA.
 - FY 2017 delivery Phase B auction, conducted in July 2016, of 400 MMcf in 24 lots, for a total of \$42,840,000. The helium that auctioned represented over 40 percent of the total volume that the BLM will make available from the Reserve in FY 2017. This met the 40 percent auction requirement mandated in the HSA.

- FY 2017 delivery Phase B non-allocated sale, conducted in August 2016, of 60 MMcf for \$6,420,000.
- FY 2017 delivery Phase B allocated sale, conducted in August 2016, of 540 MMcf for \$57,780,000.
- The total volume of helium sold, excluding In-Kind helium, was 1,000 MMcf, the total revenue generated from helium sales in FY 2016 was \$107,040,000.00
- Excess Refining Capacity and Tolling. The HSA establishes a condition for Phase B sales and auctions to refiners. The refiner must make excess refining capacity of helium available at commercially reasonable rates to persons who acquire helium from the BLM after the HSA's enactment (50 U.S.C. § 167 d (b) (8) (B)). According to the HSA's legislative history, this condition intends to maximize participation in helium sales. The HSA does not define "excess refining capacity" or "commercially reasonable rates". The BLM must develop reporting tools during the first year following the passage of the HSA to help inform and encourage refiners and non-refiners participation.
 - FY 2016 Progress. As indicated in the "Disclosure" item above, the BLM developed a new storage contract that includes a reporting requirement allowing the BLM to monitor excess refining capacity and transactions between refiners and non-refiners. The Office of Management and Budget approved these forms in November 2015 under the provisions of the Privacy Act and after the requisite *Federal Register* notifications during FY 2015. The webpage [HSA Implementation Documents](#) displays the uniform helium storage contract and the final reporting forms.
- Stewardship and Transparency. During FY 2016, the BLM continued implementation of the HSA. The BLM maintains a webpage that includes all documents related to the implementation of the HSA including Federal Register Notices, reporting forms, the new uniform helium storage contract and the transparency page.
- Other Highlights of FY 2016.
 - On July 5, 2016, the DOI published a Federal Register Notice announcing the helium auction and sales in FY 2016 for delivery in FY 2017.
 - On July 20, 2016, the BLM conducted the helium auction in Amarillo, Texas.
 - On August 22, 2016, the BLM initiated the Phase B allocated and non-allocated sales.
- Crude Helium Auction and Sale for FY 2017 Delivery. The BLM utilized a "live" auction format for the FY 2017 crude helium auction and sale. In addition, the BLM established auction lot sizes of 5 - 25 MMcf. This approach allowed a variety in volumes to appeal to both large and small bidders. Based on the new helium pricing survey described above, the BLM set the price at \$100 per thousand cubic feet (Mcf) reserve price at auction. There were six registered bidders for the auction held on July 20, 2016. Two bidders were successful in purchasing crude helium in the FY 2016 auction. Bids ranged from \$105 to \$110 per Mcf, generating a total of \$42,840,000 in revenue. Below, Table 1 displays the complete results.

TABLE 1

Helium Auction Tally
 3rd Annual BLM Crude Helium Auction
 July 20, 2016

Lot Number	Volume (MMcf)	High Bid	Bidder	Amount
Lot Number 1	25	\$108	Air Products	\$2,700,000
Lot Number 2	25	\$108	Air Products	\$2,700,000
Lot Number 3	25	\$109	Matheson	\$2,725,000
Lot Number 4	25	\$106	Air Products	\$2,650,000
Lot Number 5	25	\$108	Air Products	\$2,700,000
Lot Number 6	25	\$107	Matheson	\$2,675,000
Lot Number 7	25	\$106	Matheson	\$2,650,000
Lot Number 8	25	\$107	Air Products	\$2,675,000
Lot Number 9	25	\$107	Matheson	\$2,675,000
Lot Number 10	25	\$105	Air Products	\$2,625,000
Lot Number 11	15	\$105	Matheson	\$1,575,000
Lot Number 12	15	\$105	Matheson	\$1,575,000
Lot Number 13	15	\$106	Air Products	\$1,590,000
Lot Number 14	15	\$106	Matheson	\$1,590,000
Lot Number 15	15	\$106	Air Products	\$1,590,000
Lot Number 16	15	\$106	Air Products	\$1,590,000
Lot Number 17	15	\$109	Matheson	\$1,635,000
Lot Number 18	15	\$110	Matheson	\$1,650,000
Lot Number 19	5	\$110	Air Products	\$550,000
Lot Number 20	5	\$110	Air Products	\$550,000
Lot Number 21	5	\$110	Air Products	\$550,000
Lot Number 22	5	\$110	Air Products	\$550,000
Lot Number 23	5	\$109	Air Products	\$545,000
Lot Number 24	5	\$105	Air Products	\$525,000
	400	\$107		\$42,840,000

The BLM used the results of the helium price survey to set the sale price for the allocated and non-allocated Phase B sales at \$107 per Mcf. This represented a three percent increase from the 2015 price for crude helium, which is representative of the worldwide helium market in 2016 and the HSA’s mandate for market-based pricing.

4. Financial Status of the Helium Program

As of September 30, 2016, the Government had \$342,377,217.86 in Helium Program assets, as shown in Table 6. Current liabilities were \$91,220,288.17 (accounts payable and advances), leaving a net worth of \$251,156,929.69. As of September 30, 2016, the BLM holds storage contracts with eleven companies: five refiners, four non-refiners, and two companies that do not store helium in the reserve. The two companies that do not store helium in the reserve do connect to the pipeline in order to transport helium from private natural gas fields to the four refiners.

5. Financial and Operational Reports

Table 2 shows the total volume of helium produced from Federal lands in MMcf over the last six FY’s.

TABLE 2

Helium Produced from Federal Lands
(MMcf)

FY	Volume
2011	1,373
2012	1,371
2013	1,435
2014	1,370
2015	1,432
2016	1,319

Table 3 displays the breakdown of total BLM helium sales between the crude helium sales and in-kind sales to Federal users in MMcf over the last six FY’s. Fully subscribed crude helium sales started in FY 2010. Prior to FY 2010, the Helium Privatization Act utilized a flat-line basis for sales. The HSA requires sales and action based on estimated production levels; therefore, there was an increase in sales due to more production capacity in FY 2016.

TABLE 3

Volume of Helium Sales by the Bureau of Land Management
(MMcf)

FY	Crude Helium Sales	In-Kind Sales*	Total
2011	2,100	162	2,262
2012	2,100	132	2,232
2013	2,100	127	2,227
2014	1,787	119	1,906
2015	900	164	1,064
2016	1,000	136	1,136

Table 4 shows the helium program cash flow during FY 2016. The large dollar values primarily represent helium sold from crude helium and in-kind sales during the year.

TABLE 4

Helium Program Cash Flow, FY 2016*

Cash on hand September 30, 2015	160,353,748.62
Cash received during 2016	239,748,982.64
Cash available in 2016	400,102,731.26
Cash disbursements in 2016	133,286,480.23
Cash on hand September 30, 2016	266,816,251.03

*Cash receipts and disbursements may contain entries from prior FYs. Totals could vary from revenues earned or obligations paid during the FY.

Table 5 shows the total revenues received and expenses paid in FY 2016 on an accrued expense and income basis.

TABLE 5. – Helium Fund Statement, FY 2016		
<i>Cumulative Results of Operations FY 2016</i>		
Revenue		
Revenue from Goods Sold		115,313,964.00
Crude Helium and In-Kind Sales	93,372,146.96	
Natural Gas Sales	4,624,496.00	
Natural Gas Liquid Sales	399,187.61	
Federal Lease Land Royalties and Evaluation Sales	16,918,133.43	
Revenue from Services		7,288,180.79
Storage	7,159,668.41	
Compression	128,512.38	
Interest Revenue		160.63
Penalties and Fines Revenue		288.00
Administrative Fees Revenue		62.60
Financing Sources Transferred In w/out Reimbursement		0.00
Transfers Out–Capital Transfers (Non-Expend)		-115,000,000.00
Other Revenue		1,497,182.10
Losses on Disposition of Assets - other		0.00
Total Revenue		9,099,838.12
Expenses		
Operating Expenses / Program Costs		17,778,753.85
Other Interest Expense		0.00
Benefit Expense		1,385,391.98
Cost of Goods Sold		14,759,478.00
Cost Capitalization Offset		-179,454.73
Depreciation, Amortization, and Depletion		164,035.43
Bad Debt Expense		351.65
Other Expenses not Requiring Budgetary Resources		53,512.23
Total Expenses		<u>33,962,068.41</u>
Net of Revenues and Expenses		<u>-24,862,230.29</u>

The table below summarizes the assets, liabilities, and net worth of the Helium Fund as of September 30, 2016.

<u>TABLE 6 – Helium Program Financial Condition: September 30, 2016</u>	
CURRENT ASSETS:	
Cash	266,816,251.03
Accounts receivable	710,078.95
Advances	0
Inventory and work in process	<u>29,272,868.60</u>
<i>Total current assets</i>	296,799,198.58
FIXED ASSETS:	
Helium in underground storage	36,174,000.00
Plants, property, and equipment (net)	9,404,019.28
Other Assets	<u>.00</u>
<i>Total fixed assets</i>	45,578,217.86
TOTAL Assets	<u>342,377,217.86</u>
LIABILITIES:	
Accounts payable	569,419.28
Advances	
Unfunded liability	90,650.868.89
Long-term debt to U.S. Treasury	<u>0</u>
<i>Total liabilities</i>	91,220,288.17
NET WORTH:	
Donations and transfers*	0
Retained earnings**	276,019,159.98
FY 2015	
Cumulative results of Operations	<u>-24,862,230.29</u>
FY 2016	
<i>Total net worth</i>	251,156,929.69
TOTAL Liabilities & Net Worth	<u>342,377,217.86</u>

* Donations and transfers represent an accumulation of donated and transferred capital items primarily from other Government agencies. These include property and equipment transfers since the beginning of the Helium Program.

** Retained earnings are an accumulation of net revenue and expenses over the life of the Helium Program. This deficit (retained earnings) is a result of several years of cumulative operating losses attributed entirely to the accrual of long-term interest payable to Treasury.