

Testimony of Kimberly Elmore
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Department of the Interior Office of Inspector General
before the
House Committee on Natural Resources

The Past, Present and Future of the Federal Helium Program
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Good Morning, Mr. Chairman, and members of the Committee. My name is Kimberly Elmore. I am the Assistant Inspector General for Audits, Inspections and Evaluations at the Department of the Interior's Office of Inspector General. I am pleased to be here today to participate in this hearing to discuss our most recent audit report dealing with the Bureau of Land Management's Helium Program.

The Bureau of Land Management (BLM) administers America's Federal Helium Program. It oversees the National Helium Reserve to ensure that a sustained supply of helium is available for Government and private sector needs. Helium is an odorless gas found with other gasses in pockets beneath the Earth's surface. It is also a nonrenewable natural resource that has a variety of uses. Helium is essential to the high-tech manufacturing of fiber optic cables and the manufacturing of computer chips. It is used in biological research, deep sea diving, high-speed welding, weapons development, and plays a prominent role in medical imaging.

We had two objectives when performing our audit: to determine whether the BLM is charging its non-governmental customers market value prices for its helium sales, and to determine if BLM has the appropriate policies and procedures in place to ensure sales to non-governmental customers are free from potential fraud, waste and mismanagement. Our audit team concluded that BLM was not charging market value prices and that there were no policies in place dealing specifically with sales to non-governmental customers.

BLM has a current inventory of helium valued at approximately \$1 billion. The inventory is valued based on costs rather than market value. The Helium Privatization Act of 1996 required helium sales to be priced, at a minimum, to cover operating costs and repay the debt incurred by the Government when it purchased a large inventory of helium in 1960. BLM estimates that this debt, which is approximately \$44 million, will be paid off in 2013. Upon repayment of the debt, the helium fund will terminate, pursuant to the 1996 law. According to BLM, this will have the effect (absent reauthorization of the fund or other appropriations action) of ending the Department's ability to pay for continuing program operations. We believe, under current market conditions, BLM's remaining helium inventory is worth considerably more than its current \$1 billion valuation, and if the program continues, sales to non-governmental purchasers will continue.

BLM officials informed us, and industry, research and newspaper articles confirm, that helium is in short supply. Industry predictions suggest that helium prices will increase when BLM exits the market. A 2011 international industry article (“Tight Supply Reins In The Worldwide Helium Market,” CryoGas International, October 2011) reported that non-governmental helium producers have been increasing the price of helium at rates nearly three times greater than BLM over the past decade, and the article predicts prices will continue rising at double-digit annual rates over the next several years.

Approximately 90 percent of BLM’s helium sales are to non-governmental customers. These sales equate to about 40 percent of the Nation’s helium market. Because BLM is such a large provider, they are essentially driving the market price, which is based on costs rather than market value of the resource. We found that BLM does not have the expertise needed to identify market value prices for its helium reserve because of its long history of selling helium primarily to Federal buyers and because of the limited number of private companies that currently have access to the Federal Government’s helium supply. Without changes to the program, there is no assurance that BLM’s non-governmental helium sales will ever be made at market value. High-technology uses have led to a rapid rise in helium demand in recent years, making the determination of market value for the Government’s supply more critical. In 2010, a National Academy of Sciences study concluded that the enormous BLM sales volumes were controlling prices worldwide, giving no assurance that BLM’s helium price had any relationship to market value. Our audit found that for each percentage point increase in value to the helium supply, (the current inventory is valued at \$ 1 billion), BLM would collect an estimated \$10 million in additional helium revenues. If the value of the helium inventory were raised by 25 percent, BLM would collect an additional \$250 million. To capitalize on this opportunity, BLM needs to identify and to charge market value for all helium sales to non-governmental purchasers.

We recommended in our report that BLM should work with the Department of the Interior’s Office of Minerals Evaluation (OME) to develop a process to identify the fair market value price of helium sold to non-governmental buyers. In their response to our report, BLM officials concurred with the recommendation and stated that they had begun to work with OME. The response detailed that they have developed several options for determining a new and fair pricing of sales to non-governmental buyers.

During our audit we also found that BLM has been operating without formal procedures for non-governmental helium sales since it assumed responsibility for the helium program in 1996. Establishing formal procedures not only provides for consistency in program operations, but also creates a baseline for internal controls. Without proper internal controls in place, the risk of fraud, waste and mismanagement is increased.

The Department of the Interior has a long history of selling helium primarily to Federal buyers; this is no longer the case, however. We recommended that BLM prepare and implement comprehensive procedures for managing its helium sales to non-governmental buyers. BLM

officials agreed with our recommendation and have reported they are in the process of developing a comprehensive manual.

Our report provides highlights of the history of Government helium sales and provides recommendations that, if implemented, will help obtain fair market value from future sales. Legislation passed during the 1990's authorized that the Government's sale of the helium inventory be concluded by 2015, with the exception of a small reserve maintained for Federal purposes. Due to complications with determining fair market value for these reserves, BLM continues to sell its helium at prices set during the 1990's with adjustments only for inflation and changes in the programs operating costs. There is no assurance that BLM's process reflects the market value of helium, which has increased dramatically in the private sector as changes in technology have led to new and increasing uses for the resource. We strongly believe BLM should take the opportunity to determine and obtain market value for its helium inventory. In so doing, BLM would help to ensure that the Government receives an appropriate return for the sale of this significant natural resource.

Mr. Chairman, thank you for the opportunity to testify today. I am happy to answer any questions you or members of the Committee may have.