

Privatization of BLM's helium assets raises concerns



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Two of the most widely discussed topics at the recent Gasworld Helium Summit in Houston were the potential impact of the end of the US Bureau of Land Management's (BLM) crude helium sales to private industry and the privatization of the BLM's helium assets which is scheduled to take place between September 30, 2020 and September 30, 2021.

At the conclusion of the gasworld event, some conference attendees were still questioning whether the BLM's current path could be altered to provide a smoother transition to the post-BLM period.

The BLM's Crude Helium Pipeline and Storage System

has been at the center of the world's helium business since its creation was mandated by the Helium Conservation Act of 1960. The 425-mile pipeline, which stretches from the Bush Dome Reservoir (aka Cliffside Field), just north of Amarillo, Texas, through the Texas and Oklahoma panhandles and then northeast to Bushton, Kansas, connects the Federal Helium Reserve to seven helium refining facilities as well as a number of natural gas processing plants that produce crude helium as a by-product.

While only five of the helium refining facilities connected to the BLM Pipeline are currently active, and helium production from the helium refineries linked to the BLM Pipeline is less than half of what it was at its peak, it still plays a very

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important role in meeting global helium demand.

While the BLM Pipeline has always played a critical role in the global helium supply chain, its role has evolved through the years as a result of changing conditions in world helium markets and new helium legislation.

The Helium Privatization Act of 1996 shut down the US government's helium refining facility near Amarillo, Texas and started the process of selling off the government's crude helium stockpile, which, at one time, exceeded 30 billion cubic feet (bcf). More recently,

the Helium Stewardship Act of 2013 (HSA) defined the process for selling off the remainder of the Crude Helium Stockpile (reduced to approximately 3bcf as of October 1, 2018) via a combination of annual crude helium auctions and conservation sales, and mandated privatization of the BLM's helium assets, including the BLM Pipeline and the remainder of the Federal Helium Stockpile by September 30, 2021.

As of the completion of the BLM's recent FY 2019 crude helium auction and Conservation Sale, the Federal Helium Reserve has been reduced to approximately 3bcf. The HSA states that once the Federal Reserve reaches that level, the remaining crude helium shall be reserved for Federal helium users. The HSA also

2.4bn

Of crude helium will remain in the Federal Reserve as of September 30, 2021

stipulates that the BLM's helium assets, including an estimated 2.4bcf of crude helium that will remain in the Federal Reserve must be privatized by no later than September 30, 2021. Presumably, the buyer of the assets, including the remaining crude helium, would be allowed to sell this crude helium to private industry, so the HSA's stipulation that crude helium from the Federal Stockpile is reserved for Federal helium users after the 3bcf threshold has been reached appears to be only a temporary restriction.

The 2.4bcf of crude helium to be privatized could add a significant increment to the useful lives of the helium refining facilities linked to the BLM Pipeline, if the crude helium is made available to the refiners in an equitable manner.

Until now, the BLM has managed a reasonably fair process (some non-refiners differ on this assertion) to ensure that each of the helium refiners has access to an equitable share of the crude helium feed gas that they need to operate their helium refining facilities.

Whether or not this will be the case after the BLM privatizes its assets is an open question that will only be answered when we know who the buyer of the BLM's helium assets is and what they plan to do with the crude helium. Will the buyer be one of the helium refiners, a consortium of refiners, a mid-stream company

who operates pipelines and gas processing facilities, a commodities trading company, or someone else? There

is certainly a significant risk that current owners of the helium refining facilities could lose their supply of feed gas, potentially disrupting helium markets.

To reduce risk and uncertainty in the helium market, the BLM should consider delaying the privatization of its helium assets (including crude helium) until a time when the quantity of crude helium remaining in the Federal Reserve is much less than it is today and production from the BLM System is much less important to the global helium supply chain?

According to information provided by Nitec, the BLM's geological consultant, the annual deliverability of crude helium from the BLM System will decline from an

estimated 960 million cubic feet (mmcf) in the BLM's fiscal year commencing October 1, 2018 to only 375mmcf in the BLM fiscal year commencing October 1, 2023.

It would make sense for the privatization of the BLM's helium assets to be delayed for five years to postpone the uncertainty associated with the asset privatization process until a time when BLM is less important to helium markets and to allow time for new sources like Gazprom's Amur Project, Qatar 4, non-hydrocarbon sources or Tanzania to enter the market?

In the scenario outlined above, the BLM would

continue to sell crude helium to private industry beyond the FY 2019 sale, despite reaching the 3bcf threshold stipulated by the HSA.

While this potential alternative may sound fairly straightforward, it would require new helium legislation to replace the relevant sections of the HSA.

Based on personal experience, passage of new legislation is never an easy process. However, if there are better alternatives for "Transitioning to Life Beyond the BLM" than those mandated by the HSA, private industry should advocate for them and the time to take the initiative is now. 

ABOUT THE AUTHOR

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