

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

April 16, 2007

3:37 p.m.

MEMBERS PRESENT

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Lyda Green
Senator Bill Wielechowski
Senator Thomas Wagoner
Senator Gary Stevens
Senator Lesil McGuire

MEMBERS ABSENT

All Members Present

OTHER LEGISLATORS PRESENT

REPRESENTATIVE NEUMAN

COMMITTEE CALENDAR

Presentation: Enstar

George Schreiber, President/CEO of SEMCO
Curtis Thayer, Director, Corporate External Affairs

Presentation: Southcentral Rail Corridor

Lisa Parker, Government and Community Relations Specialist,
Agrium
Patrick Gamble, President/CEO, Alaska Railroad Corporation
(ARRC)

PREVIOUS COMMITTEE ACTION

No previous action to consider

WITNESS REGISTER

CURTIS THAYER, Director
Corporate/External Affairs
Enstar

POSITION STATEMENT: Gave Enstar presentation.

GEORGE SCHREIBER, President/CEO

SEMCO Energy Gas Company (Parent Company of Enstar)

POSITION STATEMENT: Gave Enstar presentation.

LISA PARKER, Specialist
Government/Community Relations
Agrium

POSITION STATEMENT: Discussed Agrium's energy supply issues.

BILL SHEFFIELD, Director
Port of Anchorage
Anchorage AK

POSITION STATEMENT: Discussed using the Port of Anchorage for Agrium's energy supply.

JOHN DUFFY, Manager
Matanuska-Susitna Borough
350 East Dahlia Avenue
Palmer, Alaska 99645

POSITION STATEMENT: Discussed Southcentral Rail Corridor.

MURPH O'BRIEN, Director
Planning Division
Mat-Su Borough

POSITION STATEMENT: Commented on rights-of-way.

PAT GAMBLE, President/CEO
Alaska Railroad Corporation (ARRC)
Anchorage AK

POSITION STATEMENT: Discussed Railroad development issues with Agrium energy supply.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at [3:37:45 PM](#). Present at the call to order were Senators Wielechowski, Wagoner, Stedman, Green and Huggins. Chair Huggins asked Mr. Thayer to introduce himself and begin his presentation.

[3:38:24 PM](#)

Overview: Enstar presentation - Curtis Thayer, Director, Corporate/External Affairs, Enstar and George Schreiber, CEO of SEMCO

CURTIS THAYER, Director, Corporate/External Affairs, Enstar, briefed the committee that Enstar was established in 1961 and has 125,000 meters on buildings in Alaska, which is equivalent

to serving half the state's population. It owns and operates 3,000 miles of distribution and transmission mains in Cook Inlet. Its impact on Alaska's economy is over \$300 million. Enstar has 168 full-time employees and that will go up to 225 during summer construction. It is ranked number one among Alaska energy utilities and has a net gain of about 3,400 new customers a year or a 3-percent growth rate, which is one of highest in the country.

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MR. THAYER said Enstar owns and operates everything they see in blue [referencing a chart] in the Cook Inlet - the Beluga pipeline, which is a 20-inch pipeline on the west side of the Inlet and the original Enstar system, which is a 10-inch pipeline on the east side. Marathon and Chevron own most of the other natural gas systems and Enstar is the operator for some of those. He said Chugach Electric has the next highest number of meters at 69,000 and Matanuska Electric at 50,000.

MR. THAYER went to another slide from the Department of Energy 2004 that showed that Enstar operates under long-term contracts and uses 18 to 20 percent of the gas produced in Cook Inlet. It indicated that Matanuska Power and Chugach Electric use about 16 to 18 percent.

He said that Enstar has two primary contracts and its Marathon contract is based on the price of oil indexed during a three-month period from July through September of a given year. It was initiated in 1988, 19 years ago. Its newer contract, the Unocal contract, which is now Chevron, is based off a discounted three-year average of Henry Hub prices and it was initiated in 2000.

He said that prices were high this year with a 30 percent increase - primarily because of what they call a "perfect storm." Crude oil prices were the highest they have ever been at \$72/barrel and that is during the index they used for the past 19 years. He showed the spike in natural gas prices and remarked that was when Hurricanes Rita and Katrina shut down the Henry Hub last year. He remarked when the Chevron contract was negotiated in 2000, there had never been a natural disaster that had affect natural gas prices, let alone Henry Hub pricing, for the last 25 years. Mr. Thayer pointed out a stable supply last winter in the Lower 48 (Henry Hub) using a chart of trailing averages that dropped years off at the end and picked them up at the front.

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MR. THAYER said Unocal supplies 55 percent of Enstar's natural gas supply at \$7.98/mcf. Marathon supplies 42 percent at \$5.81/mcf and Beluga supplies 3 percent at \$6.33. The weight cog is \$7.03/mcf and is based on an average of those. Their prices get changed once a year in January.

3:43:24 PM

CHAIR HUGGINS asked him to explain how the price of gas is irrelevant to the customer base.

GEORGE SCHREIBER, CEO of SEMCO, parent company of Enstar, answered:

We are not irrelevant to the price of gas and the reason is that as our rates are currently configured to charge customers, we have a customer charge which is a fixed charge. We have distribution charge, which is a volume-determined amount of revenues that we recover from customers and then we have the cost of gas. The cost of gas in Alaska is 75 percent of the bill. Now, if our profitability is tied to that middle rate, that distribution charge that I talked to, which is dependent on the volume that the customers use, then as prices go up, we know that usage is going to go down. It has happened in Alaska; it has happened in our other service areas in Michigan. It is actually a phenomenon that is happening in the gas industry in general. So that as prices go up, customers use less. Our profitability declines as prices go up. It is completely illogical. It is contrary to what most people think. Most people think well if prices are going up, then Enstar is making a whole lot more money than they were when you had \$5-gas. And it is simply not true because of the way we charge customers.

3:45:02 PM

MR. THAYER explained that gas costs \$7.03 and Enstar adds \$1.70 more, which consists of the regulated rate of return, employee costs, trucks on the road, servicemen, and its integrity management plan and includes the addition of new customers and maintaining the pipeline system. This charge has remained flat for 5 years and has actually gone down over the last 10 years.

The cost comparison percentage of annual bill shows that 45 percent of the bills in 1996 was the cost of the gas and 55 percent of it was Enstar's charge at \$1.93/mcf. Last year Enstar's piece was only 19 percent of the bill at \$1.70/mcf and

its natural gas price was 81 percent of the bill. He explained that higher prices have made people conserve so he didn't use the 2007 numbers.

SENATOR STEVENS joined the committee at 3:45.

[3:46:34 PM](#)

MR. SCHREIBER added that Enstar's charges have gone down from \$1.93 to \$1.70 over the last 10 years, but it can't reduce its costs enough to make up for what's happening in the energy markets where all energy costs are going up.

MR. THAYER went to the average annual bill comparison and said that the average annual in 1996 was \$363 and the cost of the gas \$297. Now the supply receives \$887 of an average bill and Enstar is receiving \$301. So, Enstar is been making \$62 less per year per customer than it was ten years ago. This is just related to customers conserving more.

SENATOR STEDMAN asked if Enstar's customer base had have gone up in that time.

MR. THAYER replied yes; that it has gone up by approximately 45,000 customers and that Enstar had grown more efficient in the last 10 years as the operation has grown.

MR. SCHREIBER added, however, that the usage per customer has declined over that time.

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MR. THAYER stated that the higher cost of natural gas does not benefit Enstar and the market has moved from excess deliverability to an environment where the deliverability does not meet the demand. He said the cost of natural gas will probably continue to go up and that more supply contracts are needed. These contracts are for smaller volumes and are getting more complicated. He explained that contracts used to be for 20 years at one indexed price. Now, three different pricing mechanisms might be in one contract. A flat gas price is used for a peak in a winter day, but a needle peak where it's 20 below for a week-long cold spell would be another price.

He said the pipeline system is also becoming more complicated to operate. Enstar used to balance its gas with its producers on a monthly basis and the producers now want to do it daily. Higher energy costs are not good for utilities either and their commodity costs are passed through to the customer with no

additional profit for the utility. High gas price causes consumers to conserve more and cause higher bad debt. Customer satisfaction decreases because they see Enstar's name on the bill. So, Enstar gets higher call volumes and they are also seeing an increase in theft of service.

MR. THAYER said that new rate designs are needed that will allow a utility to encourage conservation, which would also be good policy. In southcentral Alaska, at \$8.73/mmBtu natural gas is still the best bargain compared to fuel oil or municipal light and power.

3:50:08 PM

SENATOR STEDMAN asked for the backup data that was used for slide 13 that compared costs of energy to homeowners.

MR. THAYER replied that he would get that for him. He went on to the slide that showed a \$506 million cost if Southcentral had to switch to fuel oil - just for the cost of the commodity itself. For propane it would be almost \$900 million. A 2006 cost comparison for Fairbanks indicated that customers would pay approximately \$64 million a year if they could get natural gas. Right now they pay \$115 million for fuel oil. So, they would pay \$50 million less for natural gas.

3:52:18 PM

MR. THAYER said the Regulatory Commission of Alaska (RCA) rejected one of Enstar's contracts last year and Marathon has since pulled back and is not negotiating any more. That supply was to fill needs in 2009 through 2016; it had a floor and a ceiling and used a trailing 12-month average of Henry Hub prices. So, that gas supply still needs to be secured.

3:52:59 PM

MR. SCHREIBER added that Enstar issued an RFP to find the supply to replace the contract and has received a couple of indications of interest. They are finding that terms are now shorter - basically for five years term and have various pricing mechanisms. So, Enstar is working to solve those supply problems.

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SENATOR MCGUIRE joined the meeting.

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MR. THAYER said Enstar had deliverability issues this past winter on very cold days and as the system grows, more gas will

be needed for those coldest days. Agrium used to be its backup supply, but it doesn't operate in the winter any more; so they now have a backup agreement with the LNG plant to make up that supply.

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MR. SCHREIBER explained why having a backup supply is critical to natural gas systems because unlike a electric utility, the circuits don't automatically reset once the power comes back. Enstar needs to send technicians out to relight all the pilot lights. This year Enstar is supplying natural gas to Fairbanks, so when it's cold in both places, a much bigger supply will be needed out of Cook Inlet.

[4:00:51 PM](#)

MR. SCHREIBER also pointed out that last year a natural gas supplier failed to deliver on its contracts and Enstar had to step in to make sure several large users, like the hospital, had gas.

[4:01:02 PM](#)

CHAIR HUGGINS asked if Point MacKenzie had a small natural gas operation.

MR. THAYER replied that would be Northern Eclipse. They are the ones who are sending LNG to Fairbanks.

MR. SCHREIBER added that it had just enough gas to serve the peak requirements. He said Enstar's system can handle 400 mcf/day so the issue is deliverability. It has four natural gas projects in operation today and is encouraging addition natural gas storage facilities in the Kenai Peninsula.

[4:02:26 PM](#)

MR. THAYER indicated gasline options for southcentral Alaska on another slide and summarized that the least attractive option was importing LNG into the LNG facility.

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SENATOR STEDMAN asked how much gas Cook Inlet holds and recalled how a few years ago pricing didn't encourage exploration development. He said those dynamics have changed along with some credit enhancements and other incentives from the Legislature and he asked what the chances are for its development now.

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MR. THAYER replied that a 2004 Department of Energy (DOE) study said finding and developing gas onshore in Cook Inlet would be about a \$5 billion prospect and that even more measures are needed to promote more exploration. He said no exploration was going on in 2000 in Cook Inlet when Enstar signed its contract with Unocal using Henry Hub pricing. Unocal did not have the gas it committed to Enstar today and that spurred development.

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MR. SCHREIBER went to the appendix on page 30 that illustrated what Mr. Thayer just said.

SENATOR STEDMAN asked him to define "Henry Hub" for the public.

[4:06:19 PM](#)

MR. SCHREIBER replied that Henry Hub is a pricing off of a point in Louisiana which is where most of the gas in the United States flows through. It is a reference point for natural gas used on the Mercantile Exchange (NYMEX) that the gas industry looks at in terms of pricing its product.

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SENATOR WIELECHOWSKI opined that no matter what the Legislature does to solve the Cook Inlet issue, it would still cost \$4 billion or \$5 billion to either build an LNG regasification plant in Kenai or to explore in Cook Inlet or to build the spur line down from Prudhoe Bay into Southcentral.

MR. THAYER answered that the Cook Inlet costs came from a DOE study. The spur line from Fairbanks has been estimated to cost about \$800 million and a bullet line has been estimated to cost about \$2.5 billion to \$3 billion. The regasification study is ongoing, but it appears that it will cost under \$100 million.

[4:07:58 PM](#)

MR. SCHREIBER added that Enstar is attacking this on two fronts by looking for new gas supply contracts for the near term and at other options like the intrastate line, a five-year project at \$2.5 billion to \$3 billion, for the intermediate term. While a big line to the Lower 48 would be good, it would not fill the hole in his customers' supply in the meantime.

[4:10:27 PM](#)

SENATOR WIELECHOWSKI asked how much a bullet line would cost per mcf to each customer.

MR. SCHREIBER replied that at \$7 Henry Hub, Alaska is paying the market price because it has a closer supply. If the LNG plant were operating, he guessed the tariff would be about \$1.80. So gas would be about \$8.80 delivered into the Cook Inlet. He thought market price was the best way to think about it.

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SENATOR WAGONER asked what kind of control Enstar has on construction costs and how could he assure Enstar's piece could be kept at \$1.80.

MR. THAYER replied that Enstar is the largest and only pipeline builder of natural gas systems in the state. That is their expertise.

[4:14:12 PM](#)

SENATOR WAGONER asked how soon Enstar's engineering would be complete enough to know what construction would cost.

MR. SCHREIBER replied the engineering and right-of-way work is happening now with the help of federal grants and that it might go into next year.

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He added that Enstar would see no change when it becomes owned by Cap Rock, a private investment company. From the public's point of view, the only thing that will happen is that instead of having many investors in the public arena, Enstar would be owned by a private investment company.

CHAIR HUGGINS thanked them for the presentation.

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Overview: Southcentral Railroad Corridor and Resource Development

CHAIR HUGGINS invited Ms. Parker to present for Agrium on Southcentral railroad corridor issues.

Lisa Parker, Specialist, Government/Community Relations, Agrium

[4:31:15 PM](#)

LISA PARKER, Specialist Government/Community Relations, Agrium, said Agrium is configured to run on natural gas; it had to shut down its plant during the winter and won't be operational again until around the first part of May. Its challenge is to find a

reliable feedstock that will keep its billion-dollar facility operational and while it is looking for Cook Inlet gas along with everyone else, Agrium is seriously looking at using coal gasification. However, getting coal from the Healy coal mines to their facility in Nikiski is a complex task.

She said if everything were equal between the Port of Anchorage and Port MacKenzie, their preferred alternative would be to ship through Port MacKenzie because it has the space. But everything isn't equal today and their timeline is 2011 to 2012.

4:35:03 PM

CHAIR HUGGINS asked her to explain a getting coal to the Port of Anchorage scenario.

MS. PARKER replied that the Port of Anchorage would have a covered unloading facility. The railroad is looking into having bottom-dump cars that will dump into a covered conveyor and from there it would go into four 100-ft. diameter silos. From there it would be shipped by barge to the Agrium facility. Delivery would be based on tides. Their barge operations have a 38-hour cycle timeframe and the dock would be available about 290 days per year.

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CHAIR HUGGINS asked what future decision points Agrium has.

MS. PARKER replied July is their next decision as to whether or not they will continue to work on this project. If it is decided to continue, their next point would be in 2008. Their decision in July will be dependent on getting bankable documents together and giving the railroad the authority to issue the tax free bonds.

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SENATOR WAGONER said he heard about how bad coal dust is for the environment.

MS. PARKER answered that she is not an expert, but the moisture content of Healy coal is around 27 percent. The Port of Anchorage facility would be covered within contained systems, but Agrium would still need an air quality permit, but it already has two Class-1 air sheds.

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SENATOR WIELECHOWSKI asked if she has talked to Enstar about whether it makes sense to build a gas spur line from the North

Slope to Southcentral. Its construction is estimated to cost \$2.5 billion, but it would benefit half the population of the state whereas this project would cost roughly the same amount, and benefit only one company. It makes so much more sense to build the spur line.

MS. PARKER replied that some Agrium folks have had conversations with Enstar, but she couldn't elaborate on them at this time.

[4:40:53 PM](#)

CHAIR HUGGINS asked if they talked about the cost factor.

MS. PARKER replied that the dynamics in the fertilizer industry have changed and the days of cheap gas don't exist any more.

CHAIR HUGGINS asked Mr. Sheffield to comment on the role of the Port of Anchorage in this scenario.

Bill Sheffield, Director, Port of Anchorage

[4:41:50 PM](#)

BILL SHEFFIELD, Director, Port of Anchorage, explained that a train would probably deliver coal into silos at the Port of Anchorage every 18 hours. Then it goes to the dock underground and gets pumped onto the coal barge. The Port of Anchorage wouldn't be able to provide a looped track for them, but rather have three separate sites from the rail line that exists into the rear of Port now. It would be ready to meet Agrium's schedule and facility demands in 2009, but Agrium won't be ready for them until 2012.

MR. SHEFFIELD said it would take a \$274 million rail line to get to their preferred alternative at Mat-Su.

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CHAIR HUGGINS asked what the upgrades to the Port of Anchorage would cost for this project.

MR. SHEFFIELD replied that the railroad would have the land and the barge docks in, because it is planning to do that anyway, but putting in a coal-loading facility is an unknown and that would be Agrium's responsibility.

CHAIR HUGGINS said he had heard about environmental concerns.

MR. SHEFFIELD responded that the Government Hill facility is within a mile of the port and he doubted the public would hear

more noise than it does now or see the coal coming in. The coal is low-sulphur and there would probably be very little dust because of the underground facilities that would be used.

[4:49:47 PM](#)

John Duffy, Manager, Matanuska-Susitna Borough

JOHN DUFFY, Manager, Matanuska-Susitna Borough, said he had a brief presentation about their part in this project. He supported the Kenai gasification project saying that for a \$2.6 billion-dollar project, benefits should be maximized statewide. and dropping a rail extension to the Mat-Su port would do that.

MR. DUFFY said that two studies, one by Dr. Metz at the University of Alaska Fairbanks and another by Northern Economics, have found that bringing a rail line to Port MacKenzie lowers the cost for opening up significant mineral reserves north of the Alaska Range. Some of the examples are limestone near Fairbanks, which creates the opportunity for cement manufacture. There are a number of strategic mineral reserves in that area - nickel, molybdenum components for stainless steel and other export opportunities for manufacturing in Alaska.

In addition, Mr. Duffy said, using Port MacKenzie would provide them the opportunity to reduce the cost of Usibelli's coal making it more competitive on the world market. It would also provide an alternate rail link to the Interior and increase royalties, rents and corporate income taxes to the state from additional large-scale mines. The Northern Economics cost comparison study of using Port MacKenzie with a rail line or other Southcentral ports for the proposed natural gas pipeline and indicated that using Port MacKenzie lowers the cost of constructing the natural gas line significantly.

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MR. DUFFY pointed out a table prepared by Dr. Metz that compared Port MacKenzie with the Port of Anchorage. It showed that Port MacKenzie is 26 miles closer to tide water, which translates into savings of \$1.58 per ton. For the Agrium project alone that would be a savings of \$5.2 million per year in transport costs. It would provide significant savings to other mines as well. "Port MacKenzie is the only port that maximizes statewide benefits and opportunities."

He said that no annual dredging is required at Port MacKenzie and it is capable of handling Cape-sized vessels. The Borough

has 9,000 acres of land on its side and can put in a three-mile loop and provide a very cost-effective and efficient coal off-loading operation for Agrium.

MR. DUFFY said Port MacKenzie is the most cost effective efficient location for transporting pipe for a natural gas pipeline. Using Port MacKenzie would avoid problems related to coal dust and noise because there is no residential development nearby. Dropping a line to Port MacKenzie would relieve an already very congested rail network.

He said using the Port of Anchorage, which has limited upland facilities, would create added costs for additional siting, load-off facilities and additional labor costs associated with breaking up the trains there. He said it would have significant socio-environmental costs at Government Hill. Bringing the trains around, not with a rail extension, aggravates transport conflicts in the central area of the borough, particularly at the Knik Bay/Parks Highway intersection as well as 17 other at-grade crossings. To improve all that and get rid of those conflicts would cost about \$140 million. There are also conflicts with containerized cargo coal as well as gravel and the goal of having computer rail service from the Valley into Anchorage would be further reduced.

[4:56:10 PM](#)

He said the Port MacKenzie schedule was put together by an independent contractor and the Alaska Railroad has reviewed it and agreed. It has been provided to Agrium and shows that it can be designed, constructed and in operation in the 2011 to 2012 timeframe that Agrium needs.

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SENATOR WIELECHOWSKI commented that the Enstar bullet line and the ANGDA project both rely heavily on supplying Agrium's additional energy needs and are therefore mutually exclusive. However, a bullet line would provide natural gas for half the state as well. He asked which one the Mat-Su Borough would pick.

MR. DUFFY replied that he would pick the rail extension down to their port. The reason is that it would provide statewide benefits - even without an Agrium project.

CHAIR HUGGINS asked him how using Port MacKenzie would benefit building the gas pipeline and hauling things north.

MR. DUFFY replied that Northern Economics completed a study comparing Port MacKenzie, with and without a rail line, with the Ports of Anchorage, Seward and Whittier. It concluded that the lowest cost alternative was Port MacKenzie with a rail line.

[5:00:20 PM](#)

SENATOR WAGONER asked the status of the right-of-way to put the track on.

MURPH O'BRIEN, Director, Planning Division, Mat-Su Borough, said there are no Native allotments in this right-of-way corridor and over 90 percent of the proposed line would go through either state or borough property. Some private property exists towards the port end and up in the Willow area. "To say that the right-of-way acquisition would be a slam-dunk would not be fair, but if we can show the major benefits and negotiate effectively, we should be able to acquire the right-of-way within that timeframe."

[5:01:59 PM](#)

SENATOR STEDMAN asked if they are looking at any eminent domain or land claims.

MR. O'BRIEN replied that negotiations always happen first for acquisitions, then federal rules apply, which are initiated with an appraisal. If the property owner feels it's not sufficient, another appraisal is contracted. If there is still a need to negotiate, a third appraisal is done. After that point it goes to more formal proceedings. Every effort is made to acquire the property through mutual negotiation.

CHAIR HUGGINS remarked that flying the route, one see about 90 percent of it is totally unoccupied along with some wetlands.

[5:03:08 PM](#)

PAT GAMBLE, President/CEO, Alaska Railroad (ARRC), said the railroad is a central player in Agrium's coal option and so it has been dealing with all the interested parties for a number of months. Each site has pluses and minuses. He supported the Port MacKenzie site for all the reasons that have been stated. However, he said ARRC's customer right now is Agrium and when it decides what it wants to do, the ARRC will be responsive to them.

[5:04:37 PM](#)

MR. GAMBLE said a lot of details get worked out in figuring what it will cost to move a ton of coal. The ARRC has experience in

building large projects over extended pieces of real estate in Alaska and once you scrape the ground, all of a sudden the permitting process becomes a big unknown. So, to sync the railroad project up with Agrium's timeline, whichever port it decides to use, is going to be fundamental and key to the successful completion of this project in a reasonable amount of time. He summarized saying that ARRC supports developing Port MacKenzie for the good of the state.

[5:07:43 PM](#)

CHAIR HUGGINS noted that REPRESENTATIVE NEUMAN had been with the committee for an hour already.

[5:08:01 PM](#)

SENATOR WIELECHOWSKI asked if the state has any liability if it agrees to issue the \$2.5 billion bond.

MR. GAMBLE replied that there is no recourse to the state for the Agrium portion of the tax free bonds; he added that the ARRC doesn't have liability either. He explained that a portion of the \$2.6 billion would be used to buy certain equipment - locomotives and trains that would actually move the coal - for the railroad for which it would have financial liability, but it is a small fraction of the overall bond amount.

SENATOR WIELECHOWSKI asked if there are legal opinions that say the state has no liability at all.

MR. GAMBLE replied yes, there are several.

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SENATOR WAGONER asked Mr. Duffy to estimate how much limestone Alaska has.

MR. DUFFY replied that Dr. Metz reported 1.2 billion tons of limestone deposits in Alaska - in other words, world class.

[5:09:29 PM](#)

CHAIR HUGGINS asked if the space available at the Port of Anchorage is very doable for this project.

MR. GAMBLE replied that the project could be done there, but it's not optimal. The preferred site is Port MacKenzie.

[5:10:18 PM](#)

SENATOR GREEN asked what the \$2.6 billion would do.

MR. GAMBLE replied that figure is an estimate of the all-in costs of the financing for the Agrium portion of the project and for purchase of facilities and equipment assets for the ARRC part of the project.

SENATOR GREEN asked how much money goes to the port.

MR. GAMBLE replied that some confidentiality applies here, because this would translate into fees and costs per ton of coal. But, of the railroad's (up to) \$200 million portion, if he adds in the cost of the 9 locomotives and the 212 new modern coal cars, the remaining portion is about \$75 million to \$100 million. Twenty-five million would have to do with facilities for offloading the coal and that number depends on which site is chosen. The Port of Anchorage would use around \$25 million, but the engineering isn't far enough along to pin the number down.

[5:13:11 PM](#)

SENATOR GREEN asked what the remainder of the \$2.6 billion buys.

MR. GAMBLE replied that Agrium has to build the entire gasification plant, the power plant, purchase land and the coal pile, pay for the coal pile management and the tipple or the process of moving the coal to the barge. The financing and payback and all the contingencies are involved in a bond issuance and all the players have to be paid like the financial advisors, the bond counsels and so on. This also includes contingencies that large projects must have.

SENATOR GREEN asked what the key is for this project qualifying for ARRC bonding.

MR. GAMBLE replied that it's their opinion that while the law doesn't necessarily say this, they believe strongly the more the railroad is attached to the project, the less risk that anyone, like the IRS, would object. They have several legal opinions on this.

SENATOR GREEN asked if rail would be used in transporting coal from the barge to the Agrium plant.

MR. GAMBLE replied no; it would not be suitable for rail. There are more efficient ways to move the coal at that point.

SENATOR GREEN asked if other projects could apply if they have a connection to the railroad or is qualification for the tax free bonding limited to Agrium and the Port of Anchorage.

MR. GAMBLE replied that ARRC's shingle is out for business and he is anxious to investigate other opportunities for using the tax free bonding tool. He said it was expressly put into the Transfer Act for state economic development purposes and this is really the first time it is being used.

[5:15:46 PM](#)

SENATOR GREEN said she is somewhat bothered that this conversation was different a couple of weeks ago and asked what happened in that time.

MR. GAMBLE asked if she was referring to some newspaper articles.

SENATOR GREEN said she hadn't read the paper on this issue.

MR. GAMBLE went on to say that he had seen three articles on this one and one article was absolutely wrong, one was half-wrong and the other was okay. He said there is a confusion factor about who is approving what, but Agrium is the one that will approve the project and then pick the location.

SENATOR GREEN responded that maybe her question was better suited for Lisa Parker at another time.

[5:17:30 PM](#)

MR. DUFFY wrapped up saying if \$2.6 billion in public funds is made available, they should look at maximizing statewide benefits and the rail extension to Port MacKenzie does that. "It's also about time that we build a new major transportation link in this state. The last one that was built was the Parks Highway over 30 years ago."

MR. GAMBLE wrapped up by reiterating they are in close consultation with a customer who has a significant project - Agrium and it will make the decision that will guide which way the railroad will go. He supported economic development and Port Mackenzie.

CHAIR HUGGINS thanked everyone for joining the committee. There being no further business to come before the committee, he adjourned the meeting at [5:18:43 PM](#).