ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE TRANSPORTATION STANDING COMMITTEE
SENATE TRANSPORTATION STANDING COMMITTEE
January 28, 2014
1:05 p.m.

MEMBERS PRESENT

HOUSE TRANSPORTATION

Representative Peggy Wilson, Chair
Representative Doug Isaacson, Vice Chair
Representative Eric Feige
Representative Lynn Gattis
Representative Craig Johnson
Representative Bob Lynn
Representative Jonathan Kreiss-Tomkins

SENATE TRANSPORTATION

Senator Dennis Egan, Chair
Senator Fred Dyson, Vice Chair
Senator Anna Fairclough
Senator Hollis French

MEMBERS ABSENT

HOUSE TRANSPORTATION

All members present

SENATE TRANSPORTATION

Senator Click Bishop

COMMITTEE CALENDAR

PRESENTATION: TANANA~ POSITIVE TRAIN CONTROL BY THE ALASKA RAILROAD CORPORATION

- HEARD

STATUS UPDATE ON THE PORT MACKENZIE RAIL EXTENSION BY THE MATANUSKA-SUSITNA BOROUGH

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BILL O'LEARY, President & CEO
Alaska Railroad Corporation (ARRC)
Department of Commerce, Community and Economic Development
Anchorage, Alaska
POSITION STATEMENT: Presented an Update on the Alaska Railroad Corporation.

CLARK HOPP, Vice-President
Engineering
Alaska Railroad Corporation (ARRC)
Department of Commerce, Community and Economic Development
Anchorage, Alaska
POSITION STATEMENT: Presented an Alaska Railroad Update on the Northern Rail Extension.

EILEEN REILLY, Vice-President
Engineering
Advanced Train Control Systems & Technology
Alaska Railroad Corporation (ARRC)
Department of Commerce, Community and Economic Development
Anchorage, Alaska
POSITION STATEMENT: Presented an Overview on the Alaska Railroad Corporation's Positive Train Control (PTC) project.

JOHN MOOSEY, Manager
Matanuska-Susitna Borough (MSB)
Palmer, Alaska
POSITION STATEMENT: Provided a status update on the Port MacKenzie Rail Extension.

JOE PERKINS, Project Manager
Port MacKenzie Rail Extension
Matanuska-Susitna Borough
Juneau, Alaska
POSITION STATEMENT: Provided a status update on the Port MacKenzie Rail Extension.

ACTION NARRATIVE

1:05 00 PM

1:05:29 PM

CHAIR PEGGY WILSON called the joint meeting of the House and Senate Transportation Standing Committees to order at 1:05 p.m. Representatives Kreiss-Tomkins, Feige, Isaacson, Gattis, P. Wilson and Senators Dyson, Fairclough, and Egan were present at the call to order. Senator French and Representatives Lynn and Johnson arrived as the meeting was in progress.

Presentation: Tanana, Positive Train Control by the Alaska Railroad Corporation

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CHAIR P. WILSON announced that the first order of business would be a Presentation: Tanana, Positive Train Control by the Alaska Railroad Corporation.

1:08:04 PM

BILL O'LEARY, President & CEO, Alaska Railroad Corporation (ARRC), Department of Commerce, Community & Economic Development (DCCED) introduced himself and his staff, Eileen Reilly, Vice-President of Advanced Train Control Systems Technology, and Clark Hopp, Vice-President of Engineering. He related that the Matanuska-Susitna Borough will provide an overview on the Port MacKenzie Rail Extension Project.

1:09:00 PM

MR. O'LEARY reviewed some quick facts entitled, "Alaska Railroad Quick Facts," noting the ARRC management structure has stayed the same [slide 2]. He reviewed operating statistics and employees, including that number of passengers traveling on the Alaska railroad increased to approximately 500,000 and the railroad hauled about 5.11 million tons of freight, which is down from approximately 7 million tons. The ARRC employs approximately 600 year-round employees, reduced significantly from its peak in 2007-2008. Approximately 75 percent of its employees are members of one of the ARRC's five unions.

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MR. O'LEARY turned to slide 3, entitled, "ARRC Freight,", which speaks to the financial health of the ARRC. He said the "ARRC Freight" graph shows during 2008-2013 the consistent year to year drop in million tons of freight. Additionally, the bulk petroleum figures have fallen markedly - dropping nearly 75 percent since 2003. Typically, transport of bulk petroleum has provided the ARRC year round steady business. While the export coal figures - the greenish color in the middle of the slide - experienced significant growth in 2010-2011, the overall transport is about half of the 2011 amount. Additionally, the railroad experienced significant drops in gravel hauls from the Matanuska-Susitna valley to Anchorage, also down from an earlier high. He highlighted that this slide captures the financial issues the railroad has faced, in particular, since freight represents 70 percent of the ARRC's revenue stream.

MR. O'LEARY turned to slide 4 entitled, "ARRC Passenger Service," and reported that in 2013, the ARRC enjoyed a significant increase in the number of passengers served, with roughly half of its passengers occupying cruise partner coaches - coaches pulled on the same train but owned by the cruise industry. While passenger service dropped in 2008 due to the recession, it has been slowly climbing since then.

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MR. O'LEARY mentioned three areas of concern. First, the aforementioned drop in commercial freight activity; second, the Federal Transit Administration's (FTA) formula funds, based on the number of passengers and mileage, have also been reduced. He reported the ARRC is eligible for these funds by virtue of providing year-round passenger service. The funds are not insignificant, having peaked at over $35 million; however, not everyone in the Congress understands the fund's eligibility requirements. In fact, the ARRC "looks different than other recipients" such as the Chicago Transit Authority or the Long Island Railroad, so the ARRC has experienced significant difficulties in obtaining its reauthorization. For example, in 2012, the ARRC survived, although the railroad experienced

significant funding cuts. More specifically, federal funding was reduced from $35 million to $28 million, while the federal matching fund requirement doubled - now set at 20 percent - which has the effect of reducing the ARRC's monies available for projects. The program is due for reauthorization in 2014 and once again the ARRC anticipates difficulties in Washington D.C. in obtaining reauthorization.

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MR. O'LEARY recapped that the ARRC has experienced reductions in commercial activity, with less federal formula funds available. Third, the federal laws changed for positive train control (PTC), which will be discussed later. As commercial activity declined and federal funds diminished - noting 50 percent of the ARRC's operating expenses related to personnel - the ARRC was forced to undergo another round of personnel cost reductions. In fact, these reductions represent the ARRC's third round of personnel cuts since 2009, which has cumulatively led to a reduction of 300 positions. Although the ARRC used attrition for some reductions, 30 people were ultimately laid off. Overall management positions represented about 37 percent of the reduction. The ARRC also restructured its organization and streamlined its operations during this time. While the ARRC maintained its overall "outward" appearance, the machinations happened internally inside the organization.

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MR. O'LEARY turned to slide 8 entitled, "Net Income," which provides an overview of the financial history, noting the ARRC was able to reduce costs and remain steady despite reduced revenue. He estimated the current net income in the $14 million range.

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REPRESENTATIVE KREISS-TOMKINS asked for more information on the unexpected revenue "bumps" and whether positive passenger trends will continue. He further asked whether Mr. O'Leary anticipated any new large freight customers for the ARRC.

MR. O'LEARY explained the unexpected revenue in 2013. First, the petroleum refinery in North Pole shuttered up the second of its three crude towers and while the ARRC was unsure of the impact, ultimately the petroleum impacts were less than the ARRC anticipated. Second, the ARRC successfully transported generators for the Matanuska-Susitna Electric plant, which also represented unexpected freight. Finally, the ARRC had unexpected strength in the ARRC's interline barge service, which supports oil field activities. For example, an oil company can order pipe in Houston and the freight can be seamlessly transported to the North Slope by being: loaded on rail cars, transported to Seattle, rolled off/rolled on via ARRC's rail barge to Whittier, rolled off at Whittier and transferred via rail to Fairbanks, and finally, be transported by truck to the North Slope.

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MR. O'LEARY remarked that the ARRC is "bullish" on the passenger side. He characterized the rail as a fabulous way to showcase Alaska. He anticipated passenger service will continue to grow, noting the ARRC had not anticipated the positive growth trends that occurred this year.

MR. O'LEARY, in response to a question on freight, answered yes; the ARRC is hopeful about additional freight hauls. One primary focus the management team has embraced has been to grow the ARRC's revenue. He reported that the ARRC has cut an inordinate amount of operational costs, has reached the point of diminishing returns, so any additional cuts will be more difficult. Right now the organization must focus on growth. He said he is fond of the phrase, "We're going to try to grow our way out of this." He reported the ARRC aggressively seeks revenue, with an eye on assisting any significant projects in the state. Since the state has limited infrastructure, the ARRC represents a key piece, so any major project that will occur - outside Southeast Alaska - will need the ARRC.

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SENATOR DYSON understood the ARRC obtains a significant portion of its income from real estate holdings. He asked for further clarification.

MR. O'LEARY gave a brief history of railroad lands. In 1985, when the railroad was purchased by the state, it received 36,000 acres of land along with the rail infrastructure. Approximately half its land is used for rail operations, but the other half is available for other commercial uses. The advantages of the ARRC's real estate holdings is that it can as a buffer for the inevitable business cycles since the land can be leased, permits can be issued, plus the railroad has significant dock holdings in Whittier & Seward. He reported that the ARRC's real estate is significant and represented $17 to $18 million in 2013.

SENATOR DYSON expressed some disappointment that Mr. O'Leary had not previously mentioned the income stream from the leases. He recalled that a significant amount of the freight the railroad hauls is dependent on jet fuel and coal for export. He inquired about any trends for the aforementioned freight commodities. He further asked whether the railroad anticipated hauling more freight and coal for exports.

MR. O'LEARY responded that the ARRC works closely with its customers. For example, he advised that recently spent a day meeting with Usibelli Coal Mine, Inc.; however, the coal market currently is suffering from oversupply in the world market. While coal needs still exist, additional coal producers and subsequent production has kept the prices depressed to the point that Alaska coal isn't moving. The ARRC does not anticipate this changing in the next year or so, the railroad hopes coal freight will increase thereafter. With respect to jet fuel, the ARRC works closely with Flint Hills Resources, Inc. and typically meets with senior management once a year. He related numerous aspects exist for that market, depending on the demand from AIAS, but also on supplies barged in from external sources. He recalled that the demand level has been steady, similar to last year's level, but certainly demand has not been spiking upward.

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SENATOR DYSON said several members are encouraged by the potential natural gas development in Cook Inlet. He remarked that the state hopes to supply natural gas to Fairbanks via one of several methods, for example, by transporting liquefied natural gas (LNG) or compressed natural gas (CNG). He asked for the preliminary economics of potential rail transport.

MR. O'LEARY responded that he has held discussions with various parties, for example, the ARRC presented options and qualifications to the Alaska Industrial Development and Export Authority's board several weeks ago regarding the railroad's capabilities. He characterized the railroad as being a "rolling pipeline." He offered his belief that the railroad can provide an interim or long-range solution with respect to natural gas.

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SENATOR DYSON asked how long it would take the ARRC to and build or buy rail cars, if needed to respond to industry's needs.

MR. O'LEARY responded that he held preliminary discussions with car builders for either tankers or International Standards Organization (ISO) containers - noting a significant cost differential between the two - and the backlog and subsequent delay would range from 12 months to 18 months. He concluded that the ARRC is ready to go. In further response to a question, he answered that he was unsure of a source of current available cars, but none are available in Alaska.

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REPRESENTATIVE ISAACSON recognized the President/CEO of the ARRC hails from Fairbanks. He said he introduced HB 271, which would provide $2 million for a feasibility study via the University of Alaska to construct a railroad between Fairbanks and Deadhorse. He asked for further clarification on any of ARRC's marketing efforts, for example, whether the ARRC has traveled to Asia with customers, such as Usibelli Coal Mine, Inc. to solicit freight customers.

MR. O'LEARY answered that the ARRC is interested in expanding its marketing. He recalled that the ARRC has previously traveled with its customers or potential customers to detail the ARRC's capabilities; however, it has not recently done so. However, the ARRC has had a renewed emphasis on growing revenues, in particular, freight. He advised Senator Dyson that he had not intended to be disingenuous about real estate leasing revenues but omitted them in this update, since leasing has been a consistent revenue performer. He assured members that the ARRC takes its customer service very seriously. He highlighted that ne way the railroad can grow its business is to provide superlative service to existing customers and he hoped the railroad can generate new customers, including shipping liquefied natural gas (LNG) to serving other big projects with transportation needs. For example, the railroad has discussed the potential Susitna-Watana Hydroelectric project and the Alaska Gasline Development Corporation (AGDC) about the gasline activities with AIDEA and Alaska Energy Authority (AEA).

REPRESENTATIVE ISAACSON expressed gratitude that the ARRC is interested in growing freight in Alaska. For example, North Pole has a second refinery seeking rail access, especially since the refinery would like to expand its operation. He expressed hope that the ARRC will keep the refinery in mind as a means of potential growth.

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SENATOR FRENCH asked for the economic advantage of transporting by rail versus by truck. For example, he asked for a cost comparison between rail and trucking costs to transport 1,000 widgets.

MR. O'LEARY responded that the ARRC has a distinct competitive advantage in transporting heavy or awkward freight, for example, transporting large quantities of coal since it would take an unfathomable number of trucks to transport the coal the railroad currently transports and it would also place considerable stress on the highway system.

MR. O'LEARY, after consulting with Ms. Reilly, responded it would take 2.5 trucks per rail car of freight. He reported that if the ARRC operated three trains of export coal a week from Anchorage to Seward with 70 to 80 cars per train, it would take about 600 trucks to transport the coal.

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SENATOR DYSON suggested it could be up to a 10-to-1 cost ratio.

MR. O'LEARY added it would also create congestion and safety issues, not to mention the sheer volume of trucks necessary to transport the coal.

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CLARK HOPP, Vice-President, Engineering, Alaska Railroad Corporation (ARRC), Department of Commerce, Community & Economic Development (DCCED) drew attention to slide 8 entitled, "Northern Rail Extension," depicting a photo of the Tanana River crossing that shows the "grand scale" of the project. The bridge is nearly complete and it clearly shows the temporary structure to the right of the bridge that allows the construction to occur.

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MR. HOPP turned to slide 9 entitled the "Northern Rail Extension 4 Phase Project," and related the project's scope as an 80-mile rail extension from North Pole to Delta Junction. He characterized the project as a mega project, with Phase 1 consisting of building the bridge across the Tanana River, as well as providing support development for the bridge. Phase 2 would connect the railroad from North Pole to the bridge at Tanana River and Phase 3 would construct 30 miles of rail and connect the Tanana River Crossing training area to the Donnelly training area. Phase 4 would construct 38 miles of rail from the Donnelly Training Area to Delta Junction.

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MR. HOPP turned to slide 10 entitled the "Northern Rail Extension Project Benefits," and outlined the primary project benefits, which includes increased passenger and freight service opportunities, redundancy in the transportation system, and rail connections between joint bases - Elmendorf/Richardson, Fort Greely, Fort Wainwright, and Eielson AFB. Additionally, the rail would connect to three major Alaska ports and provide a strategic benefit to the military to the Port of Anchorage, Port of Whittier, and the Port of Seward. Further, the project could enhance potential regional tourism by expanding its passenger service, as well as provide infrastructure for regional resource development potential. Finally, the Northern Rail Extension project offers the first piece to connect Alaska's railroad to the Lower 48 via Canada.

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REPRESENTATIVE FEIGE noted the Salcha Bridge Tanana River Crossing project. He said the company responsible for this is Kiewit [Corporation], who has been bringing this project in on time and on budget.

MR. HOPP agreed. He highlighted the Salcha Bridge project as the longest bridge in Alaska, at 3,300 feet, which also includes a 10,000-foot levee system. As a byproduct, one major benefit would be the flood annenuation to Salcha as well as flood relief. The project estimated cost at $188.2 million, includes an $84 million in state appropriations and $104.2 from the U.S. Department of Defense (DOD). As previously mentioned, the project is on budget, on schedule, and is due to wrap up this summer. Finally, he emphasized that the project provides critical infrastructure for the U.S. military presence in Alaska by providing year-round vehicle access to the Joint Pacific Area Range Complex - a very strategic complex for the military. He related his understanding that this area provides the largest unencumbered airspace for ground training, which he characterized as a potentially world-class facility. This bridge will help provide the first piece to helping the U.S. military achieve that goal.

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MR. HOPP turned to slide 12, entitled "Port MacKenzie Rail Extension." He related that the ARRC is partnering with the Matanuska-Susitna Borough (MSB) on the Port MacKenzie Rail Extension. He lauded the partnership and teamwork experienced with the MSB/ARRC partnership.

MR. HOPP referred to slide 13 entitled the "Fairbanks North Pole Realignment" project and reported that the Environmental Impact Statement (EIS) analysis has been completed for Phase 1. He detailed the scope that includes realignment of the railroad at downtown North Pole - the Eielson branch - which will eliminate as many as nine at-grade crossings. The Richardson Highway at-grade crossing would become a grade-separated crossing with tremendous benefits to North Pole. He said the environmental impact finding of "no significant impact" means the project is shovel-ready, although some additional right-of-way procurement will be needed.

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SENATOR DYSON remarked he is a great fan of the railroad. He related his understanding that historically the ARRC was built first and roads followed, but often the railroad is expected to solve the at-grade issues. He appreciated the ARRC's concern for safety and asked for comments.

MR. HOPP agreed with the characterization; however, the railroad understands that as an asset of the state it must cooperate with other transportation entities, such as the DOT&PF & municipalities and it attempts to find ways to work with them. He reported that the railroad continues to work with communities and DOT&PF on opportunities and funding to separate crossings. He pointed out successes along the Parks Highway corridor, with removal of many at-grade crossings, although many more still need to be separated. Currently, the railroad has been holding discussions with the DOT&PF on construction crossings for next summer on the Parks Highway corridor and in the North Pole area.

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SENATOR DYSON asked for any local government fund participation.

MR. HOPP answered that he cannot recall any local funds. In response to a question, he answered that he did not believe the levee is depicted in the photograph on slide 11.

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REPRESENTATIVE ISAACSON referred to the state land at North Pole, which will receive another overpass and asked if the railroad has coordinated its effort with DOT&PF to avoid additional cost when funding is available for the road realignment.

MR. HOPP answered yes; the aforementioned overpass work at Moose Creek continues and will maintain the existing access to the air force base but it does not preclude the new alignment to the Tanana River Bridge. He reiterated the point of the overpass represents a divergence of a new alignment to the bridge, but it does not adversely impact the future road alignment.

REPRESENTATIVE ISAACSON remarked that he was reassured.

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REPRESENTATIVE KREISS-TOMKINS asked for any increased freight tonnage the ARRC anticipates once all four phases of the Northern Rail Extension project has been completed.

MR. HOPP explained that the Northern Rail Extension Project began with the question of whether a better mode of transportation could serve Central Alaska and if Fort Greely should be served. The University of Alaska Fairbanks considered these questions, keeping in mind the hazards of the transportation corridor. Additionally, associated economic studies have been undertaken to identify any freight opportunities. Although he did not recall the specific freight tonnage figures, he offered to research the matter and report to the committee. The ARRC identified the military as a primary business opportunity, particularly since the project will address one concern the military has had on mobility, which is

to provide rapid transportation from the training grounds to the Port of Anchorage to meet the military deadline of reporting for duty within 72 hours after orders are issued.

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MR. O'LEARY asked to move to the Positive Train Control (PTC), which he referred to as the ultimate unfunded federal project. He explained that this project consists of approximately $153 million of development work and approximately $64 million in railroad expenditures to date from federal funds or internal funds. An additional $19.1 million was appropriated by the legislature last year to keep the project moving, although the ARRC still lacks $70 million. He advised that the ARRC is requesting $40.8 million this legislative session for two years of funding for the PTC.

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EILEEN REILLY, Vice-President, Engineering, Advanced Train Control Systems & Technology, Alaska Railroad Corporation (ARRC) introduced herself and offered to initially play a short video to describe the project.

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MS. REILLY turned to slide 14 entitled "Positive Train Control," and stated inter-operations were mentioned in the video, primarily because 39 railway companies are instituting PTC. Under the federal Rail Safety Improvement Act of 2008, the ARRC must purchase and integrate its equipment to implement the mandatory PTC. Some larger rail companies have subsequently developed their own equipment; however, the ARRC is small and unable to do so.

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MS. REILLY turned to slide 16 entitled, "Why Mandatory PTC Regulations?" She explained that PTC is required as a result of train collisions, such as the one that occurred on September 12, 2008, when a Chatsworth, California Metrolink train passed a

"red" signal while the engineer was texting and collided with a freight train, resulting in 25 fatalities, 130 serious injuries, and $200 million in costs. She reported that a week later the Rail Safety Improvement Act of 2008 mandated PTC. The Act requires any entity providing regularly scheduled inter-city or commuter rail must comply. Since Alaska transports approximately 500,000 passengers annually, it must implement PTC, she said, noting some of the ARRC's large trains carry up to 1,200 passengers.

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MS. REILLY turned to slide 19 entitled "2010 PTC Regulation Requirements." The 2010 regulations require PTC systems to prevent train-to-train collisions by enforcing authority limits, collisions caused by over speed derailments, incursions into established work zone limits, and train movement through a main line in an improper position. She turned to slide 20 entitled, "December 1, 2013 Accident" noting a collision occurred in the Bronx, New York City, resulting in 4 fatalities and 63 injuries when a passenger train derailed. She reported that the aforementioned video showed people working on other rails, noting that in October 2013, the rail industry experienced the highest ever number of maintenance fatalities. She emphasized the importance of protecting workers. She stated that the project costs to implement the system to stop trains and prevent train-to-train collisions are extremely high. It takes considerable time for an engineer/conductor to stop a train, often taking up to 10,000 feet of rail. The ARRC had considered limiting the upgrade to only the switches most often used, but under the federal mandate all railroad switches must be upgrade.

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MS. REILLY, referring to the photograph on slide 20, noted the National Transportation Safety Board added PTC to its "most wanted list" in 2012 due to the number of train accidents. While the Bronx accident investigation hasn't been finalized, the likely outcome is that the engineer "nodded off," which the NTSB considers to be a human error. She offered her belief that the PTC won't address every incident, but it can help with human

factors; however, it's essential to keep the ARRC in good repair. Under PTC, if an engineer/conductor does not react timely to whistle-blowing requirements, the engineer/conductor is warned, and subsequently the PTC system stops the train automatically if the engineer/conductor still does not comply. She reported that federal funds have helped repair the rail, and improve safety, although the PTC system will not prevent all accidents.

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MS. REILLY brought up ramifications under slide 22 entitled, "What if ARRC does not comply?" She explained that the federal law imposes penalties for non-compliance with the maximum FRA fine at $16,000 per day per violation for each "willful" violation. Additionally, she reported that the FRA rail safety pertains to "persons" so both the corporation and the individual will be subject to penalties. In response to Chair P. Wilson's question on the percentage of revenue derived, Mr. O'Leary answered in 2013, $25 million of the $145 million in gross revenue was for passenger service.

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MR. O'LEARY addressed the implications for loss of passenger service outlined on slides 23-24], stating the slides assess the impacts of a loss of passenger service if the ARRC no longer provided service. Since the ARRC couldn't assess the impacts on partner entities, such as the cruise companies, the McDowell Group conducted a study for the ARRC. It turned out to be significant, such that the McDowell Group identified 2,000 jobs connected to the railroad's passenger services, with the multiplier effect bringing it to approximately $50 million in labor income, which includes year-round and seasonal jobs at the railroad, as well as seasonal passenger service jobs and non-resident passengers.

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MR. O'LEARY emphasized that discontinuation of passenger services would result in a significant impact, in particular,

since job income and spending would be severely curtailed. He highlighted other concerns. The ARRC receives FTA funds for providing year-round scheduled passenger service and these federal funds would be at risk or eliminated if service was discontinued. If the same number of passengers could no longer be transported by rail, it would take 3,600 motor coaches traveling on the Parks and Seward highways to provide alternate transportation.

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MS. REILLY turned to slide 26 entitled, "ARRC Facts," noting that under PTC, 525 miles, 54 locomotives and cab cars, 36 signal control points, and 108 switches must be upgraded. She reported that 72 miles of tracks are operated by signals although 64 switches are currently in the "dark area." She explained the safety process trains use to obtain authority from the dispatcher to travel between railway points, such as between certain milepost signs, and how that differs under the PTC. She noted some difficulties the railroad must contend with due to Alaska's harsh climate, as well as the limits of Global Positioning Systems (GPS), and the high cost to upgrade and integrate the new system. The ARRC continues to seek ways to reduce costs in low-density areas to implement the PTC, while still protecting the trains, she said.

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MS. REILLY turned to slides 27-28 entitled, "Origin of PTC at ARRC" and current PTC Implementation Status." She explained more details about the tracking system, which is designed to ensure train position and safety is integrated into the new system. She characterized the PTC system as being one of the largest research and development projects for integration of equipment. She pointed out the aforementioned 64 switches are difficult to equip. She reported that the ARRC has been working with the Federal Railway Administration (FRA) for an exemption on manual switch monitoring on its low-passenger density track during the approval process for the PTC Implementation plan. She highlighted that could cost $14.7 million to upgrade the

system if the ARRC is unsuccessful in its efforts, but the exemption was "looking pretty good" as of a week ago.

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MS. REILLY turned to the slide entitled, "PTC Implementation Schedule: and PTC Deadline Extension Status," and pointed to the green line that depicts the schedule. The ARRC does not anticipate receiving the final funding until 2018. Until then the railroad will operate in a revenue demonstration mode. The current deadline for implementation of upgrades is December 31, 2015; however, the ARRC and other Lower 48 railroads have been working on extensions. She related her understanding that the FRA will not fine railroads that demonstrate a "good faith effort" to implement PTC, but if not, the ARRC and other railways will be subject to fines.

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MR. O'LEARY turned to slide 31 entitled "Positive Train Control Funding 1997-2018" which highlighted funding for the project. The largest pie segment represents the ARRC's internally-generated funds and federal funding received during the 1997-2013 timeframe totaling approximately $64 million. The legislature appropriated $19.1 million in FY 2014 and the ARRC's FY 2015 is $40.8 million. The two-year budget request for 2015-2016 is necessary to provide for long-lead-time items and to obtain efficiencies in procurement activities. He estimated an additional $28.9 million will be needed in 2017-2018 to complete the project. He emphasized that besides the implementation funds, an additional $5-6 million is not included in the chart, but will be necessary to provide PTC operation and maintenance (M&O) funds. The ARRC has not requested the additional aforementioned funding since the railroad hopes to continue to grow and generate funds to be able absorb the M&O costs.

MR. O'LEARY related that the final slides provide the same information in different ways - by highlighting expenditures and commitments - and include a breakout of anticipated expenditures for the $70 million budget request for 2015-2018.

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MR. O'LEARY reported another matter, that the ARRC has its own reality show developed in conjunction with Destination America entitled, "Railroad Alaska." Six television shows have been produced and began airing in November. He emphasized that the program became the highest rated show on the Destination Channel. The program showcases the difficulty of operating a railroad under the extreme conditions in Alaska, although a considerable portion of the program is devoted to the more colorful "off-grid" characters. He reported that the ARRC has been holding internal discussions on whether to produce a second season.

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SENATOR FAIRCLOUGH asked a series of financial questions. She emphasized one ongoing concern is that the PTC system lacks a human being override of the automated controls. Her major concern stems from situations that could arise, such as avalanche or seismic events. She has been assured that the system allows the engineer/conductor to move into reverse or move forward. While she understands the desire to prevent human error, she concluded that sometimes it's preferable to have human beings assess the situation, since they can see situations differently than computers.

SENATOR FAIRCLOUGH described an incident she experienced when driving her car equipped with an automatic braking system. The system misread the conditions and began automatically braking. She discovered she was not able to override the system and accelerate to stop her skid, but luckily she was able to control her vehicle. Her own experience with automated safety devices has led her to the aforementioned concerns, particularly in instances in which an engineer/conductor knows the solution is either to accelerate or reverse the train, but must fight the system to do so. She suggested the [Transportation Committee] chairs may wish to write a letter to the federal agencies addressing the necessity for human override capabilities in PTC systems.

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MS. REILLY clarified that the PTC's computer system is limited. It can warn the engineer/conductor and then stop the train for non-response. She reiterated that PTC does not drive the train, but it will keep the train out of some situations, such as going too fast or going past an "authority" and thereby encounter a work crew or another train. She offered to provide additional information to provide assurances that the dispatcher will not issue an "authority" that ends in a slide zone, as well as offering to identify other PTC system protections. She pointed out the limitations trains have that are different from cars or trucks, such that trains cannot pick up speed or stop quickly due to the overall weight and length of trains. She concluded that the automated technology is quite different for trains and cars.

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REPRESENTATIVE KREISS-TOMKINS said he has followed PTC at the federal level; however, after viewing today's presentation, he is amazed one accident could create $8 billion in regulatory costs as well as the substantially increase operating liability for railroads across America.

MS. REILLY cautioned that her presentation only lists the final accident prior to the PTC mandate; however, she has a list of accidents and the reasons that led to the PTC being the number one priority of the National Transportation Safety Board (NTSB). She acknowledged the railroad industry is relatively safe compared to any other mode of transportation. Still, she recalled the 2005 Graniteville, South Carolina rail disaster resulting in a chlorine spill, that killed 9 people, injured 250 people and required evacuation of approximately [5,400] people for several weeks. In that situation, the crash resulted from a train going through a switch aligned in the incorrect position. She identified the overarching goal as being improved rail safety.

REPRESENTATIVE JOHNSON wondered if the $100 million in film tax credits could be appropriated to the railroad for safety.

Status update on the Port MacKenzie Rail Extension

2:30:36 PM

CHAIR P. WILSON announced the next order of business would be a status update on the Port MacKenzie Rail Extension.

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JOHN MOOSEY, Manager, Matanuska-Susitna Borough (MSB), introduced himself and Joe Perkins, the project engineer. He reported that the Port MacKenzie Rail Extension project is three-fifths completed. The first slide of his presentation shows a photograph taken in November 2012 that depicts the first cargo ship leaving Port MacKenzie- loaded with 800 tons of scrap metal, which subsequently traveled directly from Alaska to South Korea. He reported that this route will save 10 transportation days over the typical route from Alaska to Seattle, which results in significant savings. He turned to the slide entitled "Only port in Alaska with large (14 sq. mile) staging, storage and industrial area," and informed members that Port MacKenzie is the largest port in the state encompassing 14 square miles or 9,000 acres. The port is absent any conflicts with other uses or residential areas, he said.

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MR. MOOSEY turned to the slide entitled, "Upland lease lots," noting that the port has the capability to unload pipe, along with an area to coat it and reload it to ship north by rail for use in the proposed gas pipeline. He then referred to the slide entitled "Bulk Resources," and advised that the port has an opportunity to work with timber companies for transporting timber. The next slide shows the 100 industrial railcar loop - the largest in the state - which allows for staging infrastructure for quick delivery to support coal resource development.

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MR. MOOSEY reiterated that exports can travel from Port MacKenzie to Asia representing considerable time savings. Referring to the slide entitled, "A project cargo Port," he explained that the port would reduce transportation costs for project cargo for Alaska's largest projects, such as the proposed natural gas pipeline or the proposed Susitna-Watana dam. He emphasized the importance of the port's strategic location on the water with rail access. The slide entitled, "Imports," highlights the route from Port MacKenzie through Houston to Fairbanks, which is especially important to Interior Alaska, he said.

MR. MOOSEY referred to the next slide entitled, "Fuel shipments," and highlighted this as the Port MacKenzie's biggest success. The Central Alaska Energy (CAE) has been working on a 6.9 million gallon fuel tank farm - a $15 million construction project funded by AIDEA. He reported that to date, the bids have been let and the project is scheduled to begin construction in May 2014. Additionally, the project right-of-way has been completed. He emphasized that the MSB has been working with CAE on a tank farm for the past two years and as the Port MacKenzie Rail Extension project progresses, that investors have expressed strong interest since they recognize the rail project is imminent.

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MR. MOOSEY, referring to the slide entitled, "project cargo," pointed out the MSB has been working on several areas, including projects to transport timber to Alaska mills as well as to transport timber to foreign countries. Additionally, the MSB is working on staging for the potential the proposed gas pipeline will have on the rail and port. Further, with infrastructure for the proposed Susitna-Watana dam the MSB believes that Port Makenzie represents the key to future development in Alaska.

MR. MOOSEY turned to the slide entitled, "Project Forwarding Lessee," and indicated that WestPac Terminals LLC has been reconfigured with new partners. The company has been providing service deliveries on a monthly basis during the summer and has contracted with a major oil company to bring in cargo and

provide logistics. The next slide entitled, "Mineral Development," emphasizes that the port is set to be an asset for Ambler mining.

MR. MOOSEY, referring to the next two slides [untitled]. He offered his belief that resource development opportunities exist along the rail line, and while not all the mines will come under development. He said that Port MacKenzie will have a significant impact on balancing the state revenue as projects come on line. He listed groups that have sent in letters of support for the project. The next slide entitled, "Companies & Freight on Port Makenzie Rail," lists eight companies that have expressed an interest in using the services once the Port MacKenzie Rail Extension project is completed, including WestPac Logistics, and Great Bear Petroleum.

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JOE PERKINS, Project Manager, Port MacKenzie Rail Extension, Matanuska-Susitna Borough (MSB), provided a status report on construction and appropriation expenditures for the past seven years. He referred to a map that depicts the 30-plus miles of the Port MacKenzie Rail Extension Project, beginning at Port MacKenzie. The project is broken up into eight segments, with the first six segments encompassing the embankment necessary for the rail, and Segments 7 and 8 placing material under the railroad ties, installing ties, laying rail, and finishing the project. He offered to expand on Segment 6 in more detail later in the presentation.

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MR. PERKINS turned to Segment 1, which contains the rail loop, with the fuel storage on right hand side of the loop [located on the lower right hand side of the map. He reported that the fuel storage area has been constructed, which will be used this summer. The Segment 1 embankment construction and the loop is approximately 80 percent complete, consisting of one bridge, and an underpass. Segment 2 has not been started and the MSB will request additional funding for embankment construction.

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MR. PERKINS turned to Segment 3, which encompasses nearly 80 miles is approximately 80 percent complete and encompasses three bridges. He reported that Segment 4 work has just begun consisting of clearing and applying the first layer of fill. He estimated Segment 4 as being 10 percent complete, but substantial work will occur this summer. He offered to discuss Segment 5 and the funding request later. He described Segment 6, which will tie in to the main line of the Alaska railroad creates a "Y" split to allow travel both directions. Additionally, a new siding will be constructed to allow the railroad the ability to park a train. The Alaska railroad will lay Segment 6 track this winter, which is about 15 percent completed. He highlighted that this is being done to allow track and ties to be available for the contractor for Segments 7 and 8. He recapped by saying that provides an overview and construction is well underway.

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MR. PERKINS highlighted that the duplicate aerial photo of the project shows the proximity to the fuel storage area. Significant work has happened such that approximately 500 million yards have been moved to date. Referring to the map he pointed out various details, including the "Y", the main Alaska railroad line, and the adjacent siding. He emphasized the new bridge that will cross the Little Susitna River, which is approximately 95 percent completed allowing the Alaska railroad will repurpose the old bridge for the siding.

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MR. PERKINS, referring to the slide entitled "JOBS," said that the project created nearly 200 jobs at peak of last season, with the vast majority consisted of operating engineers. Referring to the appropriations, he indicated that $171 million has been appropriated by the state in addition to a general obligation bond [for $30 million].

MR. PERKINS detailed the six separate appropriations listed on the slide entitled "Project funding over time." In 2013, a general obligation bond was issued for $30 million; in 2014, the state appropriated $25 million; and in FY 2015, the MSB requested $60 million to complete Segment 2, Segment 5, and to purchase track - by taking advantage of current lower market prices for rail. An additional appropriation request in FY 2016 would result in completion by 2018. He emphasized that the project completion is dependent on funding.

MR. PERKINS showed a series of aerial photographs of the full length of the proposed Port MacKenzie Rail Extension that were color coded to depict the segments and portions currently funded, funded by the GO bond, and ones still requiring appropriations totaling $101.5 million necessary to complete the project. He related that some members attended a ground-breaking ceremony on June 4, 2013. Finally, he reported that commitments have been made for the funds appropriated thus far and request $60 million this year.

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MR. MOOSEY added that noted the project has faced four separate challenges in the 9th Circuit Court of Appeals. Thus far, the Port MacKenzie Rail Extension project has prevailed each time. He related the court agreed with the environmental protections, consisting of 8 bridges, over 100 culverts and numerous wildlife and recreational passages. He reported that although one challenge remains, the focus will be likely center on additional protection of wildlife or setting aside additional property, which the MSB is prepared to do. He lauded the efforts taken from the beginning on the project to provide protections for resources and pursue resource and economic development.

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SENATOR FAIRCLOUGH, referring to Mr. Perkins initial slide, asked about the ownership of the extension. She further asked whether PTC train controls have been appropriately placed or if it will result in new expenses.

MR. PERKINS responded that he also had inquired as to whether the PTC's will be implemented and he understood the ARRC to respond that project would not be subject to PTC since there are not any passengers being transported.

SENATOR FAIRCLOUGH related her understanding that the federal agency views the ARRC as a system, although she was unsure whether any pieces could be excluded. She pointed out that the rail would also affect any passengers or pedestrians on the tracks.

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MS. REILLY explained that the project is considered part of the "dark" portion, except for the portion at the "Y" so one radio will initialize the PTC at the loop. She clarified the PTC will be run on it, but the costs will be low since it will not require any switches.

MR. PERKINS understood the PTC portion is not in this project, but falls under the PTC.

SENATOR FAIRCLOUGH wondered if the PTC costs will be on top of the $101 million request, the $70 million request, and the $60 million for the two combined projects.

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MR. MOOSEY, in answer to the first portion of Senator Fairclough's question, reported that prior to full completion the Port MacKenzie Rail Extension project will be turned over to the control of the Alaska Railroad Corporation.

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MR. PERKINS advised the Matanuska-Susitna Borough (MSB) is acquiring all of the right-of-way for the project. The portion of the project needed for railroad's operational use will be transferred to the Alaska Railroad Corporation via a Memorandum of Understanding (MOU). Any excess property not needed by the

railroad needs to operate will remain property of the Matanuska-Susitna Borough (MSB).

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REPRESENTATIVE FEIGE said he looks forward to project. He said he would characterize many of the potential customers on the aforementioned list as being "dreams" at this stage - not to say that the projects couldn't happen. He offered his belief that this construction project is based on a matter of faith. However, the organization needs to be careful when touting its success in transporting scrap steel; since, what the project will need to become cost effective will be "day after day" and "year after year" operations with a continuous stream of revenue to justify the total project expense. He asked for the additional costs as a result of the court challenges: the total cost and subsequent defense costs for the Environmental Impact Statement (EIS).

MR. PERKINS was uncertain of the total cost of any court challenges. He reported that the state's district court case is anticipated to go to trial in August or September. He estimated the total would fall in the ballpark of $10-15 million for total legal fees, given the stop work order by 9th Circuit Court of Appeals, although the project had to pay its contractors. He reiterated an estimated $10-15 million in costs will be associated with the court cases.

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REPRESENTATIVE FEIGE, with respect to the specifications at port, noted that "bigger is better" when moving cargo. He asked for the largest size container vessel, in terms of length and draft that the port can accommodate.

MR. MOOSEY was unsure, but he responded that about three years ago a vessel transported coal. The low mean tide is 45 feet, and the port is a self-scouring port, except for a rocky area will need to be scraped. Currently the port has a $50,000 study to explore the aforementioned scraping. In closing, he said that Port MacKenzie is in a good location and can transport

goods economically. Certainly, he agreed that bigger ships make sense due to the additional volume.

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REPRESENTATIVE GATTIS said she was lucky enough to take a tour of the Panamax ship. She recalled it is the maximum size that can travel via the Panama Canal. She spoke favorably about the staff and the Port MacKenzie Rail Extension project.

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ADJOURNMENT

There being no further business before the committees, the joint meeting of the House and Senate Transportation Standing Committees was adjourned at 3:01 p.m.