

**ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE TRANSPORTATION STANDING COMMITTEE
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 5, 2013

1:04 p.m.

MEMBERS PRESENT

SENATE TRANSPORTATION

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

HOUSE TRANSPORTATION

Representative Peggy Wilson, Chair
Representative Doug Isaacson, Vice Chair
Representative Eric Feige
Representative Lynn Gattis
Representative Bob Lynn

MEMBERS ABSENT

SENATE TRANSPORTATION

Senator Click Bishop

HOUSE TRANSPORTATION

Representative Craig Johnson
Representative Jonathan Kreiss-Tomkins

OTHER LEGISLATORS PRESENT

Senator Charlie Huggins
Representative Mike Chenault

COMMITTEE CALENDAR

OVERVIEW: ALASKA RAILROAD

- HEARD

PORT MCKENZIE PROJECT UPDATE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

CHRIS AADNESEN, President and CEO
Alaska Railroad Corporation (ARRC)
Anchorage, Alaska

POSITION STATEMENT: Provided overview of the Alaska Railroad.

BILL O'LEARY, CFO
Alaska Railroad Corporation (ARR)
Anchorage, Alaska

POSITION STATEMENT: Commented on Alaska Railroad financing issues.

DON DYER, Director
Economic Development
MatSu Borough
Palmer, Alaska

POSITION STATEMENT: Participated in the Port MacKenzie overview.

JOE PERKINS, Consultant to the MatSu Borough
Palmer, Alaska

POSITION STATEMENT: Participated in the Port MacKenzie overview.

ACTION NARRATIVE

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CHAIR DENNIS EGAN called the joint meeting of the Senate and House Transportation Standing Committees to order at 1:04 p.m. Present at the call to order were Senators Fairclough, Dyson, French and Chair Egan; Representatives Isaacson, Feige, Gattis and Chair Wilson. Representative Lynn arrived shortly thereafter.

CHAIR EGAN introduced staff.

Overview: Alaska Railroad

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CHAIR EGAN announced the overview of the Alaska Railroad would be the first order of business.

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CHRIS AADNESEN, President and CEO, Alaska Railroad Corporation (ARRC), Anchorage, Alaska, provided background information on the Alaska Railroad Corporation. It is a state organization that operates independently from the state; it has a seven-member Board of Directors appointed by the governor based on geographic and vocational requirements and includes Department of Transportation and Public Facilities (DOTPF) Commissioner Kemp and Department of Commerce, Community and Economic Development (DCCED) Commissioner Bell. The ARRC is self-sustaining and financially responsible for its own obligations, and it is required to participate in economic development projects with the state. ARRC has 626 year-round employees (more in the summer), and is in the middle of a reorganization which will reduce that number; 456 employees are members of five unions.

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The Alaska Railroad offers freight services for oil field supplies, hauls military equipment, gravel, coal, petroleum products from Flint Hills, trailers on flat car and containers on flat car (TOFC/COFC) from the Port of Anchorage, Seward and Whittier, and intermodal traffic by barge from Seattle and Prince Rupert through Whittier.

He said ARRC is having some financial difficulties because gravel declined from 4 million tons in 2005 to 2 million tons in 2012, and bulk petroleum declined from over 2.5 million tons to just over 1 million. That represented 55 percent of their revenue, and it dropped to just about 20 percent, basically because two of the three towers at Flint Hills in North Pole shut down. A piece of good news is that export coal has grown quite rapidly, but it dropped off drastically this year.

MR. AADNESEN said the barge traffic from Seattle to Whittier, Burns and Northern Santa Fe and Union Pacific Railroads and the Canadian National from Prince Rupert has grown substantially, and those are now over 30 percent of ARRC's revenue base. ARRC is continuing to grow good partnerships with other railroad lines in the Lower 48, and with Linden Line, Northland Services, Spenard Builders Supply and a few others that come in by barge through Seward and Whittier and, in summer, the Port of Anchorage.

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MR. AADNESEN said ARRC had 57,250 railcars moving 5.6 million tons of freight in 2012 and accounted for 67 percent of their

customer revenue. It is an intermodal, interstate, interline and international carrier; they accommodated the longest rail-haul in North America (from Seattle by barge to Whittier and up to Fairbanks is 1,815 miles), and the longest same rail car move (of oil equipment from the southern part of Florida) in the US of 4,842 miles.

He said their interstate freight is the QFC and TOFC/COFC (Trailer on Flatcar/Container on Flatcar) business that gets on a railcar once it arrives in Alaska. They have a sizeable profitable partnership with Usibelli Coal mines moving coal north to Fairbanks, scrap metal, construction materials, gravel and jet fuel from Flint Hills to the Port of Anchorage.

He said it's difficult for the ARRC to grow business because Alaska is not a manufacturing state. So they have to grow the existing customers (like export coal) or attract different modes of traffic coming north from their international and Lower 48 partners that they can put on rail cars and haul to different destinations.

MR. AADNESEN said the interstate freight, a partnership with Alaska Railbelt Marine, a joint-venture operation between the Linden companies and ARRC, operates from Seattle to Whittier. They are two connecting customers that consider ARRC one of the best partners they have from a cooperative and timing standpoint so they are a good possibility for growing business. That barge makes 52 voyages a year; it's a seven-day transit that loads in Seattle.

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International freight comes to the ARRC in Whittier via Prince Rupert and the Canadian National Railroad and makes 30-plus voyages a year. There is some talk about doubling the number of voyages. It's a four-day transit and 45-50 railcar capacity, but there is no accommodation for containers.

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MR. AADNESEN said the recession affected passenger numbers. They were up around 550,000 in 2006/2007, started to drop until 2010, and now are growing slowly. The reason is cruise line rail cars are still dropping off slightly and are down near 200,000 passengers, but their own ridership has been growing. Ships are being added this year, so cruise line rail cars should go up.

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He explained that ARRC has regularly scheduled year-round passenger service as part of their debt obligation to the state. They operate the Hurricane Turn and the Aurora winter train; it is the last railroad with flag-stop service for picking up passengers. They do that in two locations: on the Hurricane Turn between Talkeetna and Hurricane and in partnership with the National Forest on the Chugach stop. It provides critical access for Alaska residents where there are no roads. These passenger services are what qualify them for their federal formula funds.

SENATOR DYSON asked how much the federal funding is.

MR. AADNESEN replied two years ago it was \$36 million, but it was lowered this year (in MAP-21) to \$31 million. Unfortunately, the person who was called upon in the middle of the night to provide the language of that \$31 million guarantee made a mistake, and it turned out to be \$27 million. So, the current amount they have budgeted for 2013 is \$27 million, and the match they pay to use those funds increased from 9 percent to 20 percent. So the net effect of the loss amounts to about \$13 million.

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He said the Railroad was given a "dowry" of 36,000 acres by the federal government at the time of its transfer to the state in 1985. They do property development, leases and permits and manage for dockage and wharfage at Whittier and Seward. They also run facilities maintenance and management businesses. He said these activities were designed to help with the passenger service, because there are no other trains in the US that actually make money on the passenger service without being subsidized in some manner. Because of having the real estate and a successful freight operation (until this year) they actually have positive contributions from their passenger trains.

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He said the State Rail Plan will be completed in 2013 and will allow ARRC to qualify for federal funds. It has not been updated since right after transfer to the state, almost 30 years ago. If the Transportation Infrastructure Fund is created, the Railroad would like to be included.

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The 95-year lease was approved last year and they hadn't issued one yet, but they have had a lot of interest from developers. It lends itself really well to things like long term planning in the City of Anchorage.

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BILL O'LEARY, CFO, Alaska Railroad Corporation (ARRC), Anchorage, Alaska, said he thought it was important to understand where the railroad sits financially. He showed the different lines of revenue and their relative size to one another in a graph, remarking that while passenger service is the face of the railroad for many, the freight activities are markedly larger than that and the importance of real estate revenue could also be seen.

MR. O'LEARY said ARRC has struggled to deal with some of its key revenue lines dropping, especially on the Flint Hills side. They have managed to make reductions to the organization for 2010/11/12, but for 2013 they have run out of the "lower hanging fruit" to go after. Earnings have hovered in the \$12-13 million range for the last couple of years and their earnings budget for 2013 is below \$3 million.

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He said the term "Perfect Storm" is really applicable to the Alaska Railroad at this point. Problems can sometimes come in threes and the "unholy trifecta" is getting ready to hit them, in fact it is actually impacting them already. First is the marked drop in commercial activity primarily due to Flint Hills petroleum haul and export coal. Petroleum haul is down nearly 70 percent from what used to be their largest customer.

REPRESENTATIVE ISAACSON said that the Flint Hills downturn has great impacts throughout the Railbelt and asked for some of the reasons for it and if this legislature could correct any of them.

MR. O'LEARY responded that Flint Hills owns the refinery and it operates relatively inefficiently given the fuel source it has to use compared to other refineries that can use natural gas and therefore have a lower cost for their refined product. The demand is also down primarily due to falling traffic levels of cargo carriers, the largest users at Anchorage International Airport. Significant jet fuel imports have been coming in to Anchorage International, and the storage is being constructed there by the carriers.

REPRESENTATIVE ISAACSON said the International Airport system has said their traffic is increasing. The refinery contract is coming up, and he thought they should consider Alaska hire issues. Didn't they lose 100 employees when Flint Hills shut its

first tower? And according to Fairbanks Economic Development figures, one job in the refining business creates nine other jobs.

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MR. O'LEARY said they reduced 200 positions with significant wages in 2008/9.

REPRESENTATIVE ISAACSON said they lost 38 jobs recently.

MR. AADNESEN added that they also reduced 50 jobs at Flint Hills last spring when the third tower went down and they are in the process of reducing the same number in 2013. Also, for the first time in a long time they have only five-day train service to Fairbanks, and that is basically driven by the lack of oil products.

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REPRESENTATIVE ISAACSON asked if getting the refining business back up and running would help them.

MR. AADNESEN said, "Absolutely."

SENATOR DYSON asked if the scrap metal "back haul" was paying for itself.

MR. AADNESEN answered yes and he wished they had a lot more. The fleet of cars they use for backhaul either to Anchorage or back to the Lower 48 (by barge) belong to other carriers that don't want them to be up here that long. They are working with large scrap companies to find a different way to manage it and develop a back haul to make the railroad more efficient.

SENATOR DYSON assumed that those barges go south.

MR. AADNESEN said they go south either through Seward on a barge reverse move or the scrap is taken out of the cars at the Port of Anchorage and put on a ship.

SENATOR DYSON assumed the maritime carriers give breaks for going south.

MR. AADNESEN said basically yes, subject to a contract with Alaska Marine.

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MR. O'LEARY said their other significant drop in business is in export coal. They move significant quantities of coal from the Usibelli Coal Mine both north to Fairbanks and south from Healy to Seward where it goes to various places - Chile, Korea, and Japan. They did experience some positive increases in that over the last couple of years and made some capital investments to support continued growth, but the depressed world market is impacting both demand and price, and the railroad's 2013 budget is showing a \$12 million decrease.

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MR. O'LEARY said the second thing affecting their budget is the reduction of Federal Transit Administration (FTA) formula monies from \$36 million to \$27 million/year. The match requirement was also changed from 9 percent to 20 percent, which effectively costs the Railroad another \$3.5 million to do the same project. That is coupled with less internally generated cash to spend on their capital budget. And, as if all that weren't enough, an unfunded federal mandate will require an investment of \$18 million annually for the next five years to comply with Positive Train Control (PTC).

He explained that the Railroad produces a five-year plan, both operating and capital, and an excerpt from the 2013 to 2017 timeframe indicates \$26 million will be available in 2014 to fund capital activities, but the 2014 baseline capital requirement just "to keep the wheels on the wagon" is closer to \$31 million. So they would have a shortfall in the out years. Some of the assumptions in the five-year plan are relatively tenuous and assume they can reduce enough and have enough revenue coming back that they can return to some level of higher profitability. It also assumed that the FTA formula monies were at a higher level than they turned out to be.

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Management is working with the board to undertake a serious restructuring effort to include reducing positions, reorganizing and consolidating departments, looking at all the assets to evaluate whether they are being appropriately utilized and looking at employee benefits (however, they are unionized). Assuming they are successful at making this cost structure reduction, there is no chance of being able to address the unfunded Positive Train Control (PTC) mandate.

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MR. AADNESEN explained that Positive Train Control (PTC) is a federal law requiring installation of new equipment that would

prevent train collisions, over-speed derailments, incursion into established work zone limits (a track that is being worked on is excluded from use) and train movement through a mainline switch in the improper position. All these things happen, not with regularity, but on other railroads outside of the state. The cause of this law was not based on anything that happened in Alaska. It applies to any railroad that has passenger service above a certain threshold, and ARRC is so far above it there is no chance of any exemption, the size of the number of passengers on the train (normally other passenger trains are a third the size of ARRC's especially in the summer), and it applies to any railroad using inhalant chemicals like chlorine above a certain threshold (ARRC doesn't use these). There is an unattainable deadline for probably 98 percent of the railroads of December 31, 2015 to have this fully implemented, and the technology is not finalized yet. The Lower 48 has funding issues, as well.

They thought the date would have been extended in MAP-21, but it was pulled out of the law, so the date is still December 31, 2015. ARRC is not even close to making the deadline and they are still hoping for an extension. To avoid penalties, it is still meeting milestones with the Federal Railroad Administration to prove a good faith effort towards 2015. Without Positive Train Control there will be no passenger service in Alaska; so far \$55 million has been spent on it.

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How does PTC work? It's basically a GPS electronic and communication-based system that sends signals on speed, location and what is expected up ahead to a computer on the locomotive. This communication loop is designed to be run on each railroad; there is no national system. It sends a signal to the engineer to slow down, for example, and it will slow automatically if he doesn't respond and ultimately come to a stop. There is no question that it is safer, but replacing unsafe bridges is more important.

REPRESENTATIVE FIEGE asked how trains are controlled now.

MR. AADNESEN said that a computer-aided dispatching system located in Anchorage controls operations and a locomotive engineer is on every train. The dispatcher uses PTC signals to give a red or a green to the engineer, and that basically gives them authority on a track for a certain distance. However, in any system, if the locomotive engineer forgets a verbal instruction or falls asleep, you could still have an accident. So, PTC is designed to over-ride in either of those instances.

CHAIR EGAN asked if it has been mandated since the technology hasn't been fully developed.

MR. AADNESEN responded yes. The technology has been in development since the early 90s, and it has been on the desired list of the National Transportation Safety Board for a long time. So, some railroads have tried pilot projects and some of the technology - radio systems and wayside devices - has been developed as a result, but the server communication with the wayside and the GPS is still not available. At first, ARRC was a pioneer on this but changed strategy, and now it is waiting until the devices get tested. However, it will cost more. Only a few suppliers are interested in this system.

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REPRESENTATIVE ISAACSON asked him what their strategy is for building PTC into the system since ARRC serves some large unpopulated areas.

MR. AADNESEN answered that their biggest issue is their wide open territory and they don't think the routes between Portage and Seward and between Denali and Fairbanks require a full-blown PTC system. Their numbers assume they are successful in getting a waiver from protecting every switch in those areas based on the volume of trains and the fact that it has been operating safely for all these years. If they don't get that exemption, his numbers would go up by \$20 million.

MR. AADNESEN said they started by buying communications equipment which they applied all over the railroad and have set up an initial computer-aided dispatching system. They are starting the installation and test segment from Anchorage to Whittier. They are about \$89 million short of being able to fund this system by the end of 2018.

SENATOR FRENCH asked if that was in addition to the capital shortfall needs that Mr. O'Leary just pointed out.

MR. AADNESEN said yes; his figures did not include PTC at all.

SENATOR FRENCH asked him to offer some ideas on how to fill that gap.

MR. AADNESEN said their board gave them guidance to request the money from the State of Alaska for their initial action. That was based on AS 42.40.100, their charter, that says:

The board is responsible for the management of the corporation, but shall delegate certain powers and duties to the chief executive officer in accordance with AS 42.40.120. In managing the corporation, the board shall apply to the legislature for an appropriation with the concurrence of the governor to be used to provide a particular service that is not otherwise self-sustaining if a subsidy is required to maintain that service.

It uses "shall" which gives them no choice in the PTC issue. He said all the other railroads are also getting funding from their local governments and that it would have been easier if the federal funding had stayed the same.

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What happens if ARRC does not comply? Mr. Aadnesen said the law provides for penalties and the Federal Railroad Administration (FRA) has the authority to fine 61 different PTC-related violations. Fines begin for activities 90 days after regulations were final in 2010, but no one has been fined yet. He added that everyone had to submit an implementation and development plan and a safety plan at that time - and Alaska did that. There was a milestone deadline in 2012 and again in 2013. The major one is this April, and they are prepared to get past that one, but after that it's the \$18 million or they won't be able to meet the deadlines. The maximum FRA fine is \$16,000 per violation and \$25,000 for each willful violation; a separate violation is issued for each day the violation occurs, and the safety law compliance pertains to persons, so both corporations and individuals are on the hook. In ARRC's case, he could go to jail if they don't comply.

CHAIR EGAN said he was talking about the huge amount of money for PTC, but what about its annual maintenance costs.

MR. AADNESEN said that annual maintenance would be about \$5 million, but that could be accommodated. It's just the capital expense that worries them.

CHAIR PEGGY WILSON asked if not having the money would be considered "willful."

MR. AADNESEN answered yes; not having the funds is no excuse. He explained this became law because of a collision between Union Pacific and Metrolink trains in Southern California in which 24

people were killed. It became a very volatile issue at the federal level. Metrolink spent \$240 million (funded by the State of California) to implement this. Their mileage is under 50 miles, and they don't have all the open switches ARRC does, but their expenses from their heavy daily traffic are more.

MR. AADNESEN said a causeway on the Northern Rail Extension was built so that piles could be driven for a bridge over the Tanana River. Those pilings were driven and the causeway was taken down; the project is on schedule and on budget. The biggest risk is the next year and a half.

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MR. AADNESEN said the next phase is the connection from Eielson down to the bridge where a dyke would be built to help with flood control. The bridge would be the biggest in Alaska at 3300 feet. The levy to direct the river flow is in completely and has effectively eliminated some of the flooding.

SENATOR DYSON asked him to comment on what it took to get permits to redirect the river flow with levies.

MR. AADNESEN said that was a most amazing process and the greatest waste of money he had ever experienced. It cost \$15-20 million and took 5 to 10 years.

REPRESENTATIVE FIEGE asked if those were state or federal permits.

MR. AADNESEN replied federal permits plus Corps of Engineers'; but you can be confident the project will be done in a safe and effective manner.

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He said a third-party overview committee that is not engaged in this project gives them expert outside-the-box opinions on all their engineering and construction processes as they go. They meet on a regular basis. It has given them better consciousness and confidence in the project as it goes forward. They are using 70 percent Alaskan hire that sometimes gets to 100 percent in the winter months.

Phase 1 is the causeway; the girders have all arrived in Valdez and are being trucked by a local company up to the truck site. Pile driving and pier building is to continue through 2013, along with bank protection and stabilization in the summer; phase 1 will be complete in July 2014.

MR. AADNESEN said they support the Port McKenzie project 100 percent and actually help manage the project. They have managed a lot of the permitting and think the project is viable because it is the last port in Alaska that has significant value-added services on the surrounding property. It will someday be a major place to develop Interior Alaska. They are working with the borough to ensure that ARRC has a significant amount of property - called the "terminal reserve" - on which to place their operations in 20 years or so.

SENATOR FRENCH said the long-term vision is strong growth, but he wanted him to comment on the short-term outlook, especially with coal exports dropping so fast.

MR. AADNESEN said that project is a worry for them and it's a worry for Seward, as well. The plan all along has been to not supplant Seward with Port MacKenzie. Usibelli's current plan is to truck coal from Wishbone to the port; some leases are already in place, and shipping by rail will start right away. The initial maintenance on that track will be \$150,000 a year, so the railroad isn't worried. But they hope Usibelli will lease property. ARRC could ultimately end up with unit trains for resources and single-car load-type trains in and out. At first there won't be any economic return, but the hope is that it will go up from there.

2:07:38 PM

He was asked all around town about the Canada connection. They are in on that dialogue with developers of the pipeline, because ARRC is the only railroad in Alaska short of the Skagway line. They are looking at two routes; one is to Delta Junction and entering the pipeline there, and running that many shuttle trains from the border to Delta Junction would mean a lot of jobs for Alaskans. The other is coming into Haines where ARRC has no infrastructure, and he didn't know how feasible that was, and it didn't have the support of either of the two large Canadian railroads. It could work if someone had the money to put it in, but it wouldn't be a good thing for Alaska, because the infrastructure could be built with someone else's money.

REPRESENTATIVE LYNN asked the problem with the two major Canadian railroads.

MR. AADNESEN answered part of it is location and, in his opinion, he sensed the Canadian railroads stakeholders are trying to put pressure on the Keystone initiative by offering

this alternative. There isn't any build-up anywhere for a line leaving Canada or coming into Alaska. They don't take it seriously at this point, and they are focusing inwardly right now. They want to go south and over to Vancouver instead of coming up here.

REPRESENTATIVE LYNN said the economic benefit of a connection would be just astounding.

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REPRESENTATIVE FIEGE said he knew Alberta had been trying to move tar sands oil to a market somewhere and their first entrance would be the Keystone pipeline, which may or may not be in doubt right now. Their second choice would be Vancouver using the existing rail lines. But First Nations folks in Canada are against it. He asked who the G7G consortium is and if it's just a couple of guys with a computer putting out press releases.

MR. AADNESEN said he didn't have a good answer, but he would get back to him; he did know it was several financial institutions and tribal nations. Coming to the end of his presentation, he thanked everyone for listening to him and offered to take questions.

2:11:13 PM

REPRESENTATIVE ISAACSON said in talking about revenues it's good to talk about the North Pole road/rail realignment and Petro Star had asked if a second refinery could begin being completed from the Eielson side, so they could get a loading facility and start moving product out. He asked where the EIS got them, how much money would be needed to get it going and if they had talked with Petro Star lately on their wish to get connected.

MR. AADNESEN answered yes; Petro Star had been talking to them speculatively about ARRC serving the plant, which they would be happy to do. Fifty million dollars is required to start permitting and building.

REPRESENTATIVE ISAACSON remarked all that's lacking is funding and asked what factors would move this up in priority.

MR. AADNESEN said they support the project; nothing but good would come from it. No other projects outrank it.

2:14:34 PM

REPRESENTATIVE FIEGE asked if the real estate portfolio is all surface estate.

MR. AADNESEN replied they don't own any minerals.

REPRESENTATIVE FIEGE said he had mentioned the barge connection to Prince Rupert and Washington State and asked in terms of diversification if anyone had investigated the cost of moving CNG or LNG in containers to Southcentral or to Fairbanks.

MR. AADNESEN answered yes; since they already are a "rolling pipeline," they have made themselves available to the various committees that have met up in Fairbanks and to potential developers who are interested in moving that product on an interim or permanent basis from the Lower 48 up by barge. He said ISO container movement of LNG is common in Europe and not uncommon in other parts of the world, and they would lend themselves to a movement into Alaska, because they already exist whereas not many railroad cars do. You can stack as many as four containers on a vehicle depending on which container you pick and still fit within ARRC's existing infrastructure without clearance restrictions. Because of non-disclosure agreements, he couldn't tell them who the consortiums are.

REPRESENTATIVE FIEGE asked if the price is competitive with natural gas.

MR. AADNESEN said he didn't know, but ARRC would love to handle it.

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SENATOR DYSON said he suspected the issue wasn't price, but rather how quickly it could be done. He asked about the availability of tanks on the world market and if lead time would be needed.

MR. AADNESEN said the people looking at these plans are contemplating these being loaded in the Lower 48 in containers owned by either them or somebody else (not the railroad). A minimum lead time of a year would be needed for building more tanks and two years for a full blown operation. ARRC could handle them now without any issue, but there is no place to take them.

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REPRESENTATIVE ISAACSON asked if putting a trailer on the railroad and taking it to Anchorage and taking it off and putting it on another truck was feasible.

MR. AADNESEN answered yes; that is the type of business that is growing for them and that the best way to move hazardous material like this is by rail. It would be good revenue for the railroad, and it would be easy to get into pretty fast as long as the origin and destination places could handle it.

REPRESENTATIVE ISAACSON asked if the price to the consumer for the natural gas would be affordable or would the cost of handling drive the price up.

MR. AADNESEN said that was a great question and he didn't have an answer.

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At ease from 2:21 to 2:28 p.m.

Port MacKenzie Project Update

[2:28:37 PM](#)

CHAIR EGAN announced the next agenda item would be an update on the Port MacKenzie project.

[2:29:10 PM](#)

JOHN MOOSEY, Manager, MatSu Borough, was unable to testify due to technical difficulties with the teleconference.

[2:31:14 PM](#)

CHAIR EGAN invited Don Dyer and Joe Perkins to do the presentation.

[2:32:35 PM](#)

DON DYER, Director, Economic Development, MatSu Borough, Palmer, Alaska, thanked them for supporting this project and making it possible to diversify Alaska's economy on something other than oil.

JOE PERKINS, consultant to the MatSu Borough on this project, Palmer, Alaska, introduced himself.

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MR. DYER played a video from 2:33 to 2:34 p.m. that supported investing in the economy when it is weak or uncertain.

[2:34:13 PM](#)

MR. DYER said Port MacKenzie is an opportunity to diversify Alaska's revenue sources. The Interior was really excited when he gave the Port MacKenzie Rail presentation to the Fairbanks

Chamber of Commerce, the Alaska Miners Association and three other resource development companies. It's about bringing goods into the Interior and all the products that will come out as a result.

Port MacKenzie is the only port in Alaska that has such a large land area, 14 square miles, where infrastructure can get built and prefabrications can be done. Goods from the Interior can be also be stockpiled there.

[2:37:46 PM](#)

MR. PERKINS said the legislature has appropriated \$146 million for this \$272.5 million project, which leaves \$126.5 million for completion. They have a GO bond for \$30 million.

MR. PERKINS said the project is approximately 32 miles long and has been broken into eight segments; six are embankments along the route. Segment seven will come in and even up the embankment and put down a sub-ballast; segment eight puts on ties, ballast and track.

He said that segment one was under contract last year and will be completed in another 1.5 years; segment two is not funded; segment three bids will open on February 15; segment four will be constructed with the bond issue money and that they are ready to go to contract right now, but they have to wait to get the bonds sold. Segment five is not under construction; segment six (joining the existing rail in Houston) bids were opened three weeks ago and will be under construction. So basically they are talking about embankment construction on four of the segments this summer. Segments five and two will be funded with the money they are asking for. Then they will come in with one big contract to do the leveling and sub-ballast work; one more big contract will lay ties, rail and ballast. He explained that they are doing it with one contract because they don't want multiple mobilizations; most of the equipment to lay 30 miles of rail is going to have to come from the Lower 48.

[2:42:05 PM](#)

MR. AADNESEN said the industrial loop was not part of the Environmental Impact Statement (EIS) and was not part of the project that was licensed by the Surface Transportation Board (STB). So they were able to started building this loop early. It's a one-mile loop and will hold 100 railcars. They have already moved 4.7 million cubic yards in that area. It will work out great!

[2:43:37 PM](#)

MR. DYER pointed out a picture of the area where the tank farm would go, and noted that it was already leased out.

MR. PERKINS listed their past hurdles:

1. Getting an EIS. He explained that the Surface Transportation Board in Washington, D.C. (that regulates rail) had them hire a firm from their list of vendors. It cost \$10 million and with it they got a license to construct. Then they had to get all the permits.

[2:44:57 PM](#)

REPRESENTATIVE FIEGE asked if there was a competitive bid process among the STB's vendors.

MR. PERKINS said yes - among the names the STB provided.

REPRESENTATIVE FIEGE asked if the companies on the approved list had to meet certain criteria.

MR. PERKINS answered yes.

SENATOR DYSON asked how long it took from the start to getting the permits.

MR. PERKINS answered about five years and they have been sued twice. The Sierra Club, Cook Inlet Keeper and Alaska Survival sued the STB on the EIS and the Ninth Circuit in San Francisco issued a stop work order that stopped work for about five months, and then they appeared before the whole court and won.

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Now they have sued again in Alaska District Court for basically the same thing, but they are suing the Corps of Engineers for issuing the permit. He was pretty sure they would do okay, though, and saw no more real obstacles.

CHAIR PEGGY WILSON asked if they are delayed now.

MR. PERKINS replied no; they have not been issued a restraining order.

REPRESENTATIVE FIEGE asked how much the five month delay on the first lawsuit cost.

MR. PERKINS replied it cost one year of the contract which was negotiated down to \$5 million. The indirect costs of adding another year were estimated to be another \$5 million.

REPRESENTATIVE FIEGE asked how soon they will get to that phase of the court proceeding on the second lawsuit where a judge may or may not decide on an injunction against the project again.

MR. PERKINS replied within one week. He pointed out that this was in Alaska and the other one was in San Francisco.

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MR. DYER said the project has broad support and more is coming in all the time from companies, trade organizations and government bodies. He provided a list of companies that already have leases at Port MacKenzie and showed short video clips of some of the projects.

MR. DYER said 4,000 direct jobs will happen along the rail line and about 3,500 industry related jobs will be generated around the Port MacKenzie area. Two town sites are being planned and there is a 14-acre barge staging area. They are working on a marketing plan for some leased lots. ISER came up with a 1:9 cost to benefit ratio to the State of Alaska. He showed video of the port working - Kodiak logs going to Valley Saw Mill and heavy equipment being unloaded. A coal ship came in a couple of years ago that showed that the largest Cape class vessels can navigate to and be filled at Port MacKenzie. This summer 800 tons of scrap metal was loaded there and shipped to Korea.

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Port MacKenzie is a strategic backup to the Port of Anchorage, and they are synergistic with every other port in the state. So it provides a lot of opportunity to diversify the state's economy.

He summarized the funding Port MacKenzie benefits all Alaskans: it would provide 200 jobs alone this summer, cheaper fuel to the Interior, encourage new industries bringing state revenues in that outweigh the infrastructure costs, and diversify our oil-driven economy. He said that Port MacKenzie compared to many other ports is a very low cost and low maintenance port and the huge tides of Knik Arm make it self-scouring.

CHAIR PEGGY WILSON asked how much money they want this year.

MR. PERKINS said \$126 million, so everything can be finished.

CHAIR EGAN thanked the presenters.

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There being no further business to come before the committees, Chair Egan adjourned the House and Senate Transportation Committees at 2:57 p.m.