

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

January 22, 2015

1:07 p.m.

**MEMBERS PRESENT**

HOUSE TRANSPORTATION

Representative Neal Foster, Co-Chair  
Representative Shelley Hughes, Co-Chair  
Representative Charisse Millett  
Representative Benjamin Nageak  
Representative Louise Stutes  
Representative Matt Claman  
Representative Dan Ortiz

SENATE TRANSPORTATION

Senator Peter Micciche, Chair  
Senator Click Bishop, Vice Chair  
Senator Mike Dunleavy  
Senator Bert Stedman  
Senator Dennis Egan

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Sam Kito  
Representative Cathy Tilton

**COMMITTEE CALENDAR**

OVERVIEW: ALASKA MARINE HIGHWAY SYSTEM (AMHS) REPORT TO THE LEGISLATURE BY MATT MCCLAREN~ BUSINESS DEVELOPMENT AND ENTERPRISE MANAGER AND CAPTAIN JOHN FALVEY~ GENERAL MANAGER~ AMHS

- HEARD

DISCUSSION OF STATUS OF PROJECTS: ROAD TO AMBLER MINING DISTRICT~ JUNEAU ACCESS ROAD~ SUSITNA-WATANA HYDRO PROJECT~ KNIK

ARM BRIDGE~ ALASKA STAND ALONE PIPELINE PROJECT~ AND THE KODIAK LAUNCH COMPLEX

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

CAPTAIN JOHN FALVEY, General Manager  
Ketchikan Office  
Alaska Marine Highway System (AMHS)  
Department of Transportation & Public Facilities (DOT&PF)  
Ketchikan, Alaska

**POSITION STATEMENT:** Testified during a PowerPoint overview of the AMHS.

MATT McLAREN, Business Development & Enterprise Manager  
Alaska Marine Highway System (AMHS)  
Department of Transportation & Public Facilities (DOT&PF)  
Ketchikan, Alaska

**POSITION STATEMENT:** Testified during a PowerPoint overview of the AMHS Tariff Study.

MARK R. DAVIS, Deputy Director  
Infrastructure Development  
Alaska Industrial Development and Export Authority (AIDEA)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented an overview of the status of the discussion of the Road to Ambler Mining District.

JOHN BINDER, Acting Commissioner  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Testified during the Juneau Access Road project.

KIM RICE, Deputy Commissioner  
Office of the Commissioner  
Department of Transportation & Public Facilities (DOT&PF)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented an overview of the status of the Juneau Access Road project.

SARA FISHER-GOAD, Executive Director  
Alaska Energy Authority (AEA)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented an overview of the status of the Susitna-Watana Hydro project.

WAYNE DYOK, Project Manager  
Susitna-Watana Hydro  
Alaska Energy Authority  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the overview of the status of the Susitna-Watana Hydro project.

CRAIG CAMPBELL, President & Chief Executive Officer  
Alaska Aerospace Corporation (ACC)  
Department of Military and Veterans Affairs  
Anchorage, Alaska

**POSITION STATEMENT:** Presented an overview of the status of the Kodiak Launch Project.

JOHN BINDER, Acting Commissioner  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Presented an overview of the status of the Knik Arm Crossing project.

KIM RICE, Deputy Commissioner  
Office of the Commissioner  
Department of Transportation & Public Facilities (DOT&PF)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented an overview of the status of the Knik Arm Crossing project.

FRANK RICHARDS, Vice President  
Engineering and Program Management  
Alaska Gasline Development Corporation (AGDC)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented an overview of the status of the Alaska Stand Alone Pipeline (ASAP) project and offered the spend rate response to Administrative Order [AO] 271.

#### **ACTION NARRATIVE**

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**CO-CHAIR NEAL FOSTER** called the joint meeting of the House and Senate Transportation Standing Committees to order at 1:07 p.m. Present at the call to order from the Senate Transportation Standing Committee were Senators Bishop, Egan, Dunleavy, and Micciche and present from the House Transportation Committee were Representatives Millett, Stutes, Claman, Ortiz, Hughes, and Foster. Senator Stedman and Representative Nageak arrived as the meeting was in progress. Representatives Kito and Tilton were also in attendance.

**OVERVIEW: ALASKA MARINE HIGHWAY SYSTEM (AMHS) REPORT TO THE LEGISLATURE BY MATT MCCLAREN, BUSINESS DEVELOPMENT AND ENTERPRISE MANAGER & CAPTAIN JOHN FALVEY, GENERAL MANAGER, AMHS**

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CO-CHAIR FOSTER announced that the first order of business would be an Overview: Alaska Marine Highway System (AMHS) Report to the legislature by Matt McLaren, Business Development & Enterprise Manager and Captain John Falvey, General Manager, AMHS.

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CO-CHAIR FOSTER explained that the operating budget passed last year required the AMHS to complete a review and analysis of current passenger, vehicle, and cabin rate structure for the system and report a modified tariff and fee schedule to the legislature no later than February 1, 2015. [House Bill 266, Chapter 16, SLA 14].

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CAPTAIN JOHN FALVEY, General Manager, Ketchikan Office, Alaska Marine Highway System (AMHS), Department of Transportation & Public Facilities (DOT&PF), related he will provide a PowerPoint focusing on a brief review of the AMHS.

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CAPTAIN FALVEY referred to the "Organization/Leadership" chart [slide 4]. At the height of the summertime traffic, the AMHS has 1,018 staff, with the majority in vessel operations, he said. The remaining employees staff shore-side facilities, marine engineering, reservations and marketing (Juneau), and administration. He reported that staffing is reduced by

approximately half during the winter when vessels are reduced from 11 ships to 5-6 ships. In terms of crews, it takes 2.3 crews to crew the vessels, which allows for crew vacation and shift changes. Staff at terminals is also reduced in the winter with the AMHS hiring significant seasonal summer on-call employees.

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CAPTAIN FALVEY directed attention to the "Fleet Composition" [slide 5]. The "mainliner" ferries consist of the [motor vessel] MV Malaspina, MV Taku, MV Matanuska, MV Tustumena, MV Columbia, and MV Kennicott. He noted the slide indicates the date the vessels were built, which ranges from 1963-1998. He reported the next class of vessels, the 235s, or Aurora class consist of the MV Aurora and the MV LeConte. The MV LeConte serves as a day vessel for the panhandle and Lynn Canal while the MV Aurora functions as a 24/7 vessel serving Prince William Sound. The shuttle ferries consist of two fast ferries, the FVF [fast vessel ferries] Fairweather and FVF Chenega as well as the MV Lituya. These vessels operate as day boats and return to their home port each evening, he said.

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CAPTAIN FALVEY reviewed the ports on the slide entitled "Terminal Composition" [slide 6]. He reported the AMHS consists of 35 ports of call ranging from the southern terminus at Bellingham, to the northern terminus at Valdez, and the western terminus at Dutch Harbor. Of these 35 ports of call, 17 facilities are located in Southeast Alaska and Canada, with 18 located in Southcentral Alaska and Southwest Alaska. The AMHS manages these ports of calls in a variety of ways, he said, noting the state owns and maintains 17 ports, with 12 manned and 5 unmanned facilities. He described manned facilities as smaller ports with crew loading and unloading vehicles and issuing tickets with the new reservation system anticipated to streamline this process. Four leased facilities - located in Bellingham, Prince Rupert, Seldovia, and Kodiak - use subcontractors to manage vehicle loading and passenger ticketing. The 14 privately-owned terminals, primarily located on the Aleutian Chain, consist of city-owned docks to cannery docks, with most unmanned, he said. The DOT&PF in Juneau oversees capital projects and any large projects to maintain AMHS's facilities, but the AMHS does handle smaller maintenance projects.

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CAPTAIN FALVEY directed attention to the "Route Summary" [slide 7]. The AMHS's system is large, as depicted by the overlay of the State of Alaska on a map of the Lower 48. In addition, the AMHS's system is quite different from the three largest ferry systems in the US, noting the AMHS's system consists of a 3,500 mile route that carries approximately 340,000 passengers and 115,000 vehicles. He contrasted this to ferries in Washington and BC [British Columbia] with much smaller routes but much high passenger volumes, primarily serving commuters and some tourists. In other words, the AMHS carries fewer people and vehicles over much longer distances, he said.

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CAPTAIN FALVEY turned to the "Monthly Traffic Activity" [slide 8]. He explained that traffic peaks in July, reaching the lowest point in January and beginning to increase by April. He noted the vehicle traffic has less fluctuations although vehicle traffic does bottom out a bit in the winter. Thus, vehicle transport figures tend to be more consistent than passenger ridership.

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CAPTAIN FALVEY directed attention to the "On-time Departures/Customer Satisfaction" [slide 9]. He explained that on-time departures is gauged by ships sailing within 30 minutes of the published departure time and is also based on customer satisfaction [feedback]. The AMHS keeps its vessels moving and ridership has been very happy, he said. The new reservation system [online automatic reservation system (OARS)] will provide significant data and the AMHS will be able to send customers an e-mail questionnaire. One advantage of this is an e-mail allows the survey to be changed more readily than the current hard copy survey which will allow the AMHS to gain more customer satisfaction information. Since the OARS system was initiated in 2005 - allowing customers to book their own reservations - the AMHS has seen an increase from 2005 to 2014 for online bookings from 18.5 percent to 41 percent.

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SENATOR DUNLEAVY, referring back to the graph on slide 8 [Monthly Traffic Activity], asked whether the same vessels with the same capacity are being run during times of low volume.

CAPTAIN FALVEY answered that ferry service is generally reduced during the winter; for example, the AMHS may not have the same two vessels running in Prince William Sound during the winter as they do in the summer; instead, one vessel provides winter service. In further response to Senator Dunleavy, he replied that the vessels have more open [or vacant] passenger seats in the winter.

SENATOR DUNLEAVY further asked whether the AMHS attempts to sell more open seats at a discount to increase capacity during the winter.

CAPTAIN FALVEY answered that the AMHS has struggled with that concept, in part, since the current reservation system is aged. He said he hopes to address increased capacity once the new system is implemented in the fall since the OARS will have ability to offer discounted fares.

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CAPTAIN FALVEY directed attention to the "Operating Expenditure Analysis FY 08-14" [slide 10]. He noted the bar chart in blue depicts GF [general fund] monies and the green shows the revenue generated. Thus, for example, the total cost in FY 14 was \$166 million, including embedded fuel trigger monies. These figures do not include the state general fund capital funds for the annual CIP [Capital Improvement Project] overhauls. During the six week vessel overhaul, significant equipment certifications and hull inspections required by federal regulations are conducted, as well as minor maintenance. Major renovations for federal CIPs are also separate; for example, the current overhaul for the MV Kennicott spanned two years and cost \$14 million.

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REPRESENTATIVE NAGEAK asked for the major cost driver of the operating expenditure analysis.

CAPTAIN FALVEY directed attention to the pie charts for "FY 14 Revenues and Costs" [slide 11] to the annual operating costs of \$166 million. He provided a brief overview of the two largest cost drivers: 40 percent for wages and 23 percent for payroll benefits. In addition, other costs include 2.8 percent for travel, which includes crew travel for non-bid jobs; 10 percent for services, which includes approximately \$1 million for

broadband fees, as well as terminal contracts and laundry costs - provided by the prison; 19 percent for fuel costs; 5 percent for commodities such as supplies; and 1 percent for support services provided by the DOT&PF, such as human resources or attorney general costs. He next directed attention to the pie chart on the left to FY 14 revenue sources. The two major revenue drivers are passenger ticket sales and car deck ticket sales. He said the 48 percent of the AMHS's revenue is derived from the car deck ticket sales, 33 percent from passengers, 10 percent for stateroom sales, 8 percent from passenger services, and 1 percent from interest derived from fund investments.

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CAPTAIN FALVEY turned to the next slide, entitled, "FY 15 Look Forward" noting the AMHS strives to manage within its budget and has been successful in doing so [slide 12]. He reported that the overall traffic figures have improved by 7 percent in the past year, and that the system has encountered very few mechanical casualties and few weather cancellations. Given the aging fleet, the system has been running well overall, he said.

CAPTAIN FALVEY said the AMHS will implement a 4.5 percent tariff increase, which will be discussed in more detail in the next presentation. Briefly, [as Co-Chair Foster mentioned earlier] intent language language was added to the operating budget during the last legislature requesting the AMHS reduce its general funds subsidy. In 2008, [Northern Economics, Inc.] completed a rate study for the AMHS. Further, the AMHS Tariff Analysis [dated January 2015] was just completed. The initial study provided information on the AMHS's approximate tariffs, numbering about 20,000, including combinations for every ship and every port, and for vehicles ranging from kayaks to vans. He acknowledged that the tariff structure had become unmanageable, especially using the old reservation system. The new OARS reservation system and a new tariff method that Mr. McLaren will describe will make significant improvements. The studies have identified the AMHS's high tariffs and low tariffs. Embedded in the 4.5 percent tariff increase, the AMHS isolated any tariffs 25 percent higher than the norm and have frozen them. The AMHS has been moving slowly in an effort to even out the tariffs, with an overarching goal to have fair and equitable tariffs based on vessel miles. Fares will be based on the number of miles traveled and the services received. Tariff changes are currently underway and should generate about \$1.8 million in savings in the current budget.

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SENATOR STEDMAN, speaking as a frequent AMHS traveler, noted that some of Alaska's ferries travel directly between Petersburg and Sitka, but others stop in Juneau before traveling on to Sitka. He asked how the new tariff structure will handle the added miles for passengers who must travel to an additional port, not by choice.

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MATT MCLAREN, Business Development & Enterprise Manager, Alaska Marine Highway System (AMHS), Department of Transportation & Public Facilities (DOT&PF), answered that this has been considered. In the aforementioned scenario, the tariff will consider the beginning port of Petersburg and the destination of Sitka and will not penalize passengers who are routed through Juneau.

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SENATOR STEDMAN asked whether any data is available for non-revenue passengers.

CAPTAIN FALVEY answered that the AMHS has discontinued non-revenue passes.

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SENATOR STEDMAN asked for efficiencies that the AMHS has aggressively pursued to reduce its costs; for example, with respect to engines, propellers, and other cost saving measures. He suggested information on cost savings could be quite important to new members who may not be aware of ongoing efforts the AMHS has made to control costs.

CAPTAIN FALVEY offered to report on cost reduction efforts at the end of his presentation. In response to Senator Dunleavy, he confirmed that the AMHS has been in the process of identifying potential AMHS reductions for Governor Walker.

CAPTAIN FALVEY reported that the 4.5 percent tariff increase will generate \$1.8 million in reduced general funds for FY 16.

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CAPTAIN FALVEY directed attention to the next slide, entitled, "Dayboat Alaska Class Ferries" [slide 13]. Two Alaska Class ferries are currently being constructed in Ketchikan. These vessels will be 280 feet in length, seat up to 300 passengers, and carry 53 Alaska standard vehicles, approximately the size of a Ford Expedition. The vehicles will feature very fast loading and unloading bow and stern doors. He anticipated the AMHS will build a double stern berth facility in Haines by FY 17 with the capability to accommodate rapid movement of vehicles. Further, the new ferries will have enclosed car decks, in part, in response to public and legislative concerns about protecting vehicles against the seas. These vessels will be equipped with efficient propellers to maximize maneuverability and fuel efficiency. The vessels are slated for a 2018 delivery date - with one delivered in the spring and the other in the fall - and will provide shuttle service between Juneau and Haines; and on to Haines and Skagway. In addition, the AMHS was able to purchase four engines prior to January 1 that allowed Tier III emission engines as opposed to Tier IV engines, which will result in significant cost savings over time. The AMHS was able to meet the Environmental Protection Agency (EPA) requirements to qualify and the engines have been purchased and stored in Ketchikan. He reported the project is on budget and on time.

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REPRESENTATIVE CLAMAN asked for further clarification on where the Alaska Class ferries fit in the vessel category.

CAPTAIN FALVEY answered that the Alaska Class ferries are considered day vessels, which means crew will return to Juneau and Skagway each evening.

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SENATOR DUNLEAVY asked for total cost of each vessel.

CAPTAIN FALVEY described the cost process of the Alaska Class ferry, noting initially the AMHS budgeted \$120 million to construct one 350-foot vessel; however, the process was halted after realizing construction costs would exceed \$120 million. Although \$3.5 million was expended the AMHS owns the design work. The remaining \$117.5 million will provide the design, construction engineering, direct cost allocation, and construction for two Alaska Class ferries. In response to Senator Dunleavy, he clarified the \$117.5 million is the total construction cost for two vessels. In response to Senator

Stedman, he offered to discuss repowering the MV Columbia at the end of his presentation.

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CAPTAIN FALVEY turned to "Reservations & Manifest System" [slides 14-15]. The new reservation system will be fully available for public use in October 2015, but will run parallel to the old system from July to October in case any glitches arise. Carus, a Finnish company delivering the system, is well versed in reservation systems. Carus has experience working with operators in the Baltic region, the United Kingdom, mainland Europe, Australia, Africa, and the US. He characterized the company as being very successful and he expressed confidence the new system [CarRes] will provide efficiencies and be more user friendly; for example, the system will have the capability of using smart phones for scanning tickets. Further, the CarRes system will assist the AMHS with security by tracking passengers as well as for outreach. The AMHS will eventually use kiosks like the airlines, he said.

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CAPTAIN FALVEY, in response to Senator Stedman's earlier question about cost savings, reported that during the past two years the AMHS has reduced its costs by \$4.5 million. For example, the AMHS reduced travel agent commissions on point to point in-state travel resulting in \$450,000 in savings. In addition, the AMHS reduced the 30 percent round trip winter discount and discontinued free passes for drivers during the summer, but retained the winter discount. The AMHS has closed gift shops on the ships, reassigned gift shop personnel, and will hire fewer new employees for the summer season resulting in approximately \$1 million in savings. The AMHS reduced the running time for the MV Taku by a month resulting in \$1 million in savings. The MV Lituya now uses the Annette Bay terminal, cutting its run time cut in half yet still providing two runs a day to serve Ketchikan, resulting in a \$250,000 in savings.

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CAPTAIN FALVEY detailed other savings including pushing back one of the fast ferries by four or five months resulting in \$800,000 in savings. The AMHS has also eliminated outsourcing, has been vigilant on shore side and ship side staff, and has facilitated a stipend plan with AT&T saving \$40,000 on cell phones. The

cell phones are integral to operations since the AMHS runs 24/7 with shore side and ship side staff.

CAPTAIN FALVEY reported the MV Columbia spent nine months in a Portland shipyard receiving new engines from \$32 million in federal funds, which has saved 10 percent in fuel costs. The FVF Fairweather now has four new engines and is running nicely, also with a 10 percent savings in fuel costs. As you may know, the state settled with the contractor for approximately \$30-\$35 million to replace the fast ferry engines at no cost to the state. The AMHS also purchased two spare swing engines housed in Ketchikan at about half cost. In addition, the AMHS employs fuel management systems on mainline ships that result in about 5 percent fuel savings. In response to an earlier question, he indicated that the MV Matanuska will be repowered in 2016 and 2017, which should result in additional fuel savings.

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SENATOR EGAN asked for an update on the Prince Rupert terminal.

CAPTAIN FALVEY reported that the effort to rebuild the dock is ongoing. The dock was condemned about six years ago and the AMHS worked at that time with the BC [British Columbia] ferry system to dock AMHS's ships using their terminals, but that dock is no longer available. Two years ago the state signed a 50-year lease with the Canadian government, including providing a \$3.3 million down payment using federal funds. The 50-year lease essentially means the AMHS "owns" the terminal and is responsible for property taxes and maintenance fees. The intent was to spend approximately \$11 to \$20 million in federal funds to rebuild the dock; however, a dilemma arose due to the "Buy American" rules, which requires purchasing American steel when federal monies are involved in a project. Canada objected and invoked the Foreign Extraterritorial Measures Act, which meant that Canadian firms bidding on the project may be subject to potential fines. Thus, the state withdrew its bid yesterday, he reported.

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CO-CHAIR HUGHES commented that she lived in Hoonah as a teenager and understands how important the ferries are to the communities. The AMHS has been subsidized by the state; for example, by approximately \$120 million in the last fiscal year. She asked for the administration's long-term plans and vision to reduce state subsidies to the ferry system, noting that Norway

and Canada have built tunnels, roads, and bridges [to reduce or eliminate runs].

CAPTAIN FALVEY, referred back to the chart on slide 3, noting the two biggest cost drivers for the AMHS are wages and fuel. He highlighted cost savings, noting the department strives for efficiency with its marine contracts while still maintaining fair and equitable contracts, that the AMHS has enjoyed about a 10 percent reduction in fuel costs attributable to the new engines. The mainline ferries also employ fuel throttle systems, he said.

CO-CHAIR HUGHES remarked that she appreciated the DOT&PF's efforts, but encouraged the department to look at what other countries have done to bring in other modes of transportation to lower ferry costs.

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REPRESENTATIVE STUTES asked for a report on the MV Tustumena and the dock repairs in Kodiak, which were hampered by the presence of sea lions. She further wondered how this delay will affect the projected costs.

CAPTAIN FALVEY answered that the design for the new MV Tustumena is underway with \$10 million in design funds, with an estimated completion by December or early next spring. Further, not all the design monies will be necessary, he said. He reported the fund balance at \$50 million. He estimated construction costs to build the ship will be \$220 million. In response to the dock repair, that project is being overseen by the DOT&PF regional office. He acknowledged the setback in terms of [federal] permitting for sea lions, although the department has been actively working to obtain the permits and anticipates construction will occur thereafter, dependent on the construction window.

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REPRESENTATIVE STUTES asked whether the department is "reinventing the wheel" since the old MV Tustumena has operated for 50 years.

CAPTAIN FALVEY emphasized the need to be cognizant of the vessel service life, which he estimated at 10 years for the current MV Tustumena. Ships are maintained via the federally-sponsored CIP [capital improvement program]. The MV Tustumena underwent a large project at the Seward shipyard, but some issues arose with

the shipyard; however, the ship had a good overhaul and repairs were made. Nevertheless, it would be remiss not to start the process for replacement so the AMHS has been proactively using two processes: state funds, federal funds, or a combination of the two to plan for the MV Tustumena's replacement.

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SENATOR STEDMAN stated one radical measure is to tie up ships to the dock. He asked whether doing so would incur costs or if the operating costs will be reduced to zero.

CAPTAIN FALVEY advised that costs will not be reduced to zero unless a ship is scrapped or surplused and some costs due to risk management to oversee the vessel would be incurred. In addition, certificates must be maintained to keep the ship in ready status, although he said he did not have the specific figures available today.

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SENATOR STEDMAN agreed that it wasn't simple to just tie up ships to bring down the subsidy since the AMHS would still incur costs. In addition, the issue is complex, he offered, since union agreements are in place and the state cannot unilaterally make decisions. He emphasized that the AMHS faces challenging problems, which is one reason why pressure has been made to increase efficiencies.

[1:56:54 PM](#)

CHAIR MICCICHE said his last district was dependent on the services of the MV Tustumena. He thanked Captain Falvey for his management and the unprecedented safety record. In terms of the governor's request for budget cuts, he asked whether efficiencies including rates, schedules, and service adjustments are also being considered.

CAPTAIN FALVEY agreed that the AMHS is looking at those considerations.

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REPRESENTATIVE CLAMAN, in terms of the design costs for the MV Tustumena, recalled the auto industry often faces design considerations. He wondered if the AMHS is seeking a simple design or cutting edge design and whether some design costs

could be eliminated by using a standard design being effectively used in other parts of the world.

CAPTAIN FALVEY replied that some of the design considerations are necessary because the MV Tustumena's routes are unique. For example, the state doesn't own most of the docks so huge tide differentials exist that requires vehicle elevator use, which doesn't happen worldwide. The replacement ship must employ very good design. The naval architectural firm has taken the basic design and is building in efficiencies, ranging from hull efficiencies to propeller efficiencies.

2:00:21 PM

REPRESENTATIVE CLAMAN understood this ship is a unique ship and the AMHS is starting with the existing MV Tustumena's design.

CAPTAIN FALVEY agreed; noting the AMHS met with communities on the replacement MV Tustumena and has incorporated their feedback into the design; thus, the new ship will be slightly bigger but the AMHS is cognizant of the size since it must accommodate the existing docks.

REPRESENTATIVE CLAMAN acknowledged he had answered his question.

2:02:10 PM

MATT McLAREN began his PowerPoint on the AMHS Tariff Study by reporting that Northern Economics, Inc. completed the rate study for the DOT&PF in 2008. Northern Economics, Inc. made tariff recommendations and recommended tariff formulas, which the briefing will cover [slide 2]. He directed attention to their recommendations. First, the Northern Economics, Inc. study identified the state's current tariffs for passengers, vehicles, and cabins ranged significantly. In fact, some fares were 25 percent above or below the average tariff per nautical mile. The study recommended the AMHS freeze any tariffs that were 25 percent above the average tariff. Secondly, the study recommended adopting a formula approach to setting the tariff in an effort to design a more equitable tariff throughout the system. Third, the study recommended the AMHS set a two-tier tariff approach with some seasonal adjustments to accommodate summer and winter demands. Further, they recommended that the overall tariffs be increased from zero to 30 percent higher for passengers and 30-40 percent higher for vehicles. He noted some ridership doesn't vary much between summer and winter due to local traffic. Third, the study recommended fare recovery rates

between 39-65 percent [slide 4.] He reported that the AMHS has only been recovering approximately 31 percent of the recovery rates, so it will consider some increases, either by incorporating more efficiencies to reduce costs or combining cost savings with adjusted tariffs to reach the minimum of 39 percent recovery.

2:05:39 PM

MR. McLAREN reported that the study also recommended differentiating between commercial and passenger vehicle tariffs, noting the current fares have been based on the amount of room each vehicle uses. The commercial transport industry typically has higher fees so the study recommended a 60-120 percent increase in commercial tariffs. The study also recommended adopting a tariff premium for express and high demand routes starting with an increase of 10 percent for these routes; however, the study also recommended that these tariff adjustments be implemented gradually over time to avoid shocking the system.

2:07:02 PM

MR. McLAREN directed attention to "Passenger Tariff Formula" [slide 5], to demonstrate the fee structure. The Northern Economics, Inc. study recommended fixed embark and disembark fees and adding a distance-based fee, with a seasonal multiplier and a route-type multiplier to arrive at the passenger tariff.

MR. McLAREN next directed attention to the "Vehicle Tariff Formula" [slide 6]. This formula would be similar with a dimensional adjustment for larger vehicles plus adding a commercial fee. He turned to the "Cabin Tariff Formula" [slide 7] stating that the fee would be based on the cabin type by size and location plus a distance-based fee with a seasonal and route adjustment. He next referred to the sample table of the current tariff plan adjusted with the new structure [slide 8]. Again, tariffs on routes that were greater than 25 percent would be frozen, he said.

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MR. McLAREN highlighted the plan moving forward is to keep the high tariffs frozen and adjust the lower fares until the system fares area fair and equitable [slide 9]. Thus far a 4.5 percent across the board tariff increase has been implemented on all routes except the high tariffs. All routes will be analyzed to

determine the feasibility of seasonal adjustments. A premium tariff will be implemented on express, dedicated and highly utilized routes. The tariff formulas will be gradually implemented over several years.

CAPTAIN FALVEY said the AMHS is currently working on formula changes to calculate the tariffs. He anticipated that the new tariffs will be embedded in the system when the new reservation system is brought on next fall.

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REPRESENTATIVE CLAMAN said he's received some feedback that the ferry system may be somewhat inflexible in recognizing and serving communities hosting events. For example, he suggested the AMHS might make some small adjustments to the schedule to serve the Kodiak Crab Festival.

CAPTAIN FALVEY answered that AMHS works hard to accommodate local communities, hold a summer and winter teleconference to facilitate events, and has a comment period prior to finalizing the schedules. They have a full-time scheduler who works to make the very complex schedules work and accept e-mail and phone call comments. He related that the AMHS has a list of special events ranging from festivals in Cordova and Haines to kids coming to Ketchikan for the music festival. He reiterated that the AMHS attempts to accommodate communities, although some issues can arise due to weather.

[2:14:35 PM](#)

REPRESENTATIVE CLAMAN interjected that he has heard of issues arising in late spring or summer.

CAPTAIN FALVEY maintained the AMHS accommodates communities as best as the system can.

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SENATOR STEDMAN mentioned that the number of complaints he has received has been greatly reduced since Captain Falvey has taken charge. In fact, significant improvements have occurred in the AMHS in the past several years. He expressed concern that budget concerns will raise issues for the legislature.

CAPTAIN FALVEY characterized his staff as hard working and very skilled, performing a large volume of work, for example the crew

handle 15,000 dockings and undockings per year and based on customer satisfaction [surveys] provide good service.

[2:16:16 PM](#)

CHAIR MICCICHE related the longer distances for the AMHS and the 2014 highs with about 350 percent differences in tariffs. He understood the tariff changes will be implemented gradually and asked for a definition of gradually.

MR. McLAREN related the AMHS's plan to implement the tariff changes over a period of four to five years, which is somewhat dependent on the route per mile embarking fees and the route costs per mile. Of course, freezing the higher tariffs while raising the lower ones helps bring the average tariff closer, he said. He estimated the fare cost recovery rate will equate to a \$13 million difference from the current structure, which will be met by incorporating efficiencies or increasing revenue; probably a combination of the two. However, some areas may end up paying twice their current fares, for example, a \$20 fare may increase to \$40, which can be significant to communities so the AMHS would like avoid instituting big increases.

[2:18:59 PM](#)

SENATOR BISHOP, referring to \$2.4 million in support services on the pie chart [on slide 11], indicated his preference to have the department negotiate down the internal rate between the two departments.

CAPTAIN FALVEY acknowledged his concern.

[2:19:50 PM](#)

CO-CHAIR FOSTER passed the gavel to Co-Chair Hughes.

The committee took at-ease from 2:19 p.m. to 2:21 p.m.

[2:21:35 PM](#)

CO-CHAIR HUGHES called the committees back to order.

**DISCUSSION OF STATUS OF PROJECTS: ROAD TO AMBLER MINING DISTRICT, JUNEAU ACCESS ROAD PROJECT, SUSITNA WATANA HYDRO PROJECT, KNIK ARM BRIDGE, ALASKA STAND ALONE PIPELINE PROJECT, AND THE KODIAK LAUNCH COMPLEX**

[2:22:24 PM](#)

CO-CHAIR HUGHES announced that the final order of business would be a discussion of status of projects: Road to Ambler Mining District, Juneau Access Road Project, Susitna Watana Hydro Project, Knik Arm Bridge, Alaska Stand Alone Pipeline Project, and the Kodiak Launch Complex. She noted that she has previously referred to these projects as mega projects, but she would like to withdraw that designation. She said she recognizes that they are important and major projects, but are not on the scale of mega project. She identified the Knik Arm Bridge Crossing project as one of great interest to her district projected at \$1 billion. In terms of cost, she related the bridge between Portland and Vancouver is a \$3 billion bridge. She expressed concern that labels can create certain connotation that can kill projects.

CO-CHAIR HUGHES asked Mr. Davis to provide a status report on the next project listed on the Governor's Administrative Order (AO) 271, the Road to Ambler Mining District.

[2:25:16 PM](#)

MARK R. DAVIS, Deputy Director, Infrastructure Development, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), stated that AIDEA has issued stop orders and is in the process of paying outstanding invoices. He further reported that AIDEA has been working to stabilize the data that has been collected to date, but not go to a final report. For example, on the fisheries report the AIDEA believes it can expend \$20,000 on a draft report versus issuing a final report for \$70,000. AIDEA always intended to use the appropriated funds for an environment impact statement (EIS), he said. The appropriated funds to date total \$9.7 million, with an estimate of \$1.4 to \$1.6 million necessary to shut down the project if the administration and legislature desire to do so.

MR. DAVIS indicated that AIDEA has collected base data and has prepared a draft application to the US Army Corps of Engineers [USACE] and has selected a third party contractor to prepare an EIS if the project were to move forward. He estimated an additional \$6.8 to \$7 million will be necessary to continue to reach a record of decision on the EIS. If the project is shut down, he estimated that AIDEA could return approximately \$7.6 to \$7.9 million to the legislature. In response to Co-Chair Hughes he reiterated \$1.4-\$1.6 million to shut down and preserve the

data, with \$7.6-\$7.9 in general fund monies available to return to the legislature. Finally, it would cost an additional estimated \$6.8 million in FY 17 to move forward with the project, he said.

[2:28:16 PM](#)

CO-CHAIR HUGHES asked for an overview of scope of the Road to Ambler Mining District. She understood it would be a 220 mile industrial road - not paved - but a gravel road. She further asked for a timeline to move forward.

MR. DAVIS summarized the Ambler Mining District Road project, such that AIDEA has been working to obtain a record of decision for the EIS. If AIDEA were to file for an EIS it would take three to four years to obtain it. If the EIS were granted by the US Army Corps of Engineers (USACE), the AIDEA's board would declare the project and would undergo a finance plan to seek private capital to build a road estimated at \$200-\$258 million, according to Dowl. He anticipated that the construction would take 3-4 years, with the final process 8 years out. In response to Representative Ortiz, he reported that the state has invested about \$20 million to date. He explained that some funds were spent by DOT&PF and some by AIDEA. He noted AIDEA received two appropriations from the legislature with \$9.3 million of the appropriation remaining.

[2:29:55 PM](#)

REPRESENTATIVE NAGEAK commented that during his time in the legislature he has often discussed the necessity to access Alaska's resources. The cost to do business in rural Alaska is very high, largely due to transportation costs. In fact, he lives 150 miles from the source of the wealth of the state yet he still pays \$7 per gallon for gasoline. Further, the state relies on oil and gas revenues, which has been driving the economy. He emphasized that natural resources are located in rural Alaska and building infrastructure such as ports and roads are necessary to diversify the economy. He reminded members that today's dollars are cheaper than tomorrow's dollars. He urged members to build the infrastructure at today's costs since the projects will cost significantly more in the future.

[2:33:21 PM](#)

SENATOR STEDMAN acknowledged that it is difficult to represent a region and see a project disappear. He noted that the bridge to

Gravina Island funding was reappropriated to the Railbelt communities. He emphasized that he has long been a supporter of the Ambler Mining District road project, the Knik Arm Bridge, and the Watana [Hydro project]; however, the state is facing a \$4 billion deficit. He said it will be tough to see any of these projects be shelved for some time.

[2:33:43 PM](#)

SENATOR BISHOP asked for the annual dividend to the state on Red Dog Mine port road and the dividend to NANA Regional Corporation (NANA).

MR. DAVIS offered to provide the information. He understood that it is significant revenue. He offered his belief that the net present value of the road would be about \$84 to \$90 million over a 30 year life of the project back to the developer.

[2:35:20 PM](#)

CO-CHAIR HUGHES commented that [the legislature] wants the private sector to be strong as the necessary budget cuts occur. She stated that the governor's [Administrative] order [AO 271] is to review the projects so they can be prioritized. She hoped members will have an open mind and consider the statewide perspective.

[2:36:18 PM](#)

CO-CHAIR HUGHES turned next to the Juneau Access Road project.

[2:36:36 PM](#)

JOHN BINDER, Acting Commissioner, Department of Transportation & Public Facilities (DOT/PF), stated that the Juneau Access Road project is a proposed Federal Highways Administration (FHWA) and DOT&PF action to improve surface transportation to and from Juneau within the Lynn Canal Corridor. This project has been under consideration for a long time, he said. In 2006, the final EIS was issued that would have allowed the project to move forward with the East Lynn Canal Highway alternative for construction. Several lawsuits were filed arguing the EIS failed to consider improved ferry service could be made available using current infrastructure. After many days in court the lawsuit was upheld. In January 2012, a supplemental EIS process was initiated to consider the additional alternative. In November 2014, a draft EIS was issued regarding

that alternative. Significant public comment was received and the contractor is currently responding to the comments. He anticipated that a draft final EIS will be available for a record of decision in early 2016. Thus a significant amount of time will be spent incorporating the comments into the EIS.

ACTING COMMISSIONER BINDER related that the estimated total cost for the project in 2013 dollars is \$570 million. Thus far \$26 million of federal funds and \$20 million of state funds have been expended or approximately \$45 million total funds to date.

[2:39:01 PM](#)

CO-CHAIR HUGHES asked for further clarification on the remaining state general funds necessary for the Juneau Access project.

ACTING COMMISSIONER BINDER answered that he doesn't have the figures broken out between state and federal funds necessary, but offered to provide it.

REPRESENTATIVE HUGHES understood it was approximately \$9 million.

[2:39:32 PM](#)

KIM RICE, Deputy Commissioner, Office of the Commissioner, Department of Transportation & Public Facilities (DOT&PF), stated that the estimated cost is approximately \$523 million to construct the roadway. She stated that the federal aid typically comes in at ten percent so it would cost approximately \$52 in [state funds].

[2:39:57 PM](#)

SENATOR EGAN, with respect to funding, asked what happens if there are substantial delays to the EIS.

ACTING COMMISSIONER BINDER answered that this is still to be sorted out with the FHWA. He anticipated that as the administration highlights its vision that some of it will flesh out. He said he doesn't know the answer, but in the worst case scenario, the state has expended \$26 million federal funds that may need to be reimbursed. Again, at this point, this is unknown.

[2:40:48 PM](#)

SENATOR EGAN asked whether the funds would need to be returned to the federal government.

MS. RICE answered that significant debate has occurred. She went to the source 23 CFR 630, the federal regulation. She offered her interpretation, that from the time of the EIS and the right-of-way is opened, the state has 20 years to complete. If the project is in preliminary engineering the state has a 10 year deadline. The end of the regulation says that the state may request a time extension beyond the 20 year limit, with no repayment of federal funds and the FHWA may approve this request if it is considered reasonable. She reported this is why the DOT&PF is working closely with the FHWA. She offered two examples, first, with the Tony Knowles Coastal trail [extension] project, the DOT&PF worked through an EIS, got to the end of the project, and the project was either supported by Municipality of Anchorage or the state, but never supported by both at the same time. Ultimately the decision was made not to build the project, and the DOT&PF did not repay.

[2:42:05 PM](#)

MS. RICE turned to the second scenario in which a controversial Anchorage highway-to-highway project was halted. In that instance the state repaid the \$10 million when the decision was made not to move forward. However, the federal funding that is returned is put on another project; thus, the state doesn't really lose the federal funding, although it returns any general fund monies. In a sense, the effect expands the programming, she said.

[2:42:40 PM](#)

REPRESENTATIVE CLAMAN related that the answers to Senator Egan's questions sufficed.

[2:42:50 PM](#)

SENATOR EGAN referred to the Gravina Island bridge funding that was used elsewhere. He asked for further clarification on what happens to all the money that has been appropriated; for example, another \$35 million was appropriated last year [for the Juneau Access project]. He expressed concern about the funds going elsewhere.

MS. RICE acknowledged that Senator Egan was referring to the appropriated money but she offered to discuss the STIP [Statewide Transportation Improvement Program] first.

SENATOR EGAN asked her to address the funding also.

MS. RICE was unsure if any federal earmarks have been provided for the Juneau Access project. She explained the program process, such that when the STIP is developed, AC or advanced construct is built into the program. Thus, the DOT&PF can advertise that projects are being worked on that need to move forward, especially given that projects take anywhere from 5 to 10 years to develop. The STIP covers three years. She was unsure whether the Juneau Access Road project has any "earmarks." It's essential that the DOT&PF has the flexibility to move funding around for projects that run into snags and do not move forward. Thus, some AC projects move forward in the program as regular construction projects. She reported that the DOT&PF currently has an amendment to move the [Juneau Access project] funding to future years. This will be reflected in the STIP in future years. Typically, the DOT&PF carries forward about 30 percent, which is the national average of shuffled projects. She offered her belief that [Gravina Bridge project] funds are dedicated to be used in other Ketchikan projects. She cautioned that she knows less about Southeast Alaska than other parts of the state, but she envisioned that some funding could be reappropriated to other projects, noting the decisions are not totally within the DOT&PF's control.

[2:45:45 PM](#)

CO-CHAIR HUGHES asked whether the administration agrees that the Juneau Access Road project would save subsidies for the ferry system. She asked whether Alaska should move forward with remedies taken in other parts of the world.

MS. RICE answered that the DOT&PF is currently transitioning. Historically, in recent history, the draft Southeast Plan identifies quarters. The federal program requires planning documents that have "big picture" vision and projects are developed for the plan. One project in the Southeast Plan [Southeast Alaska Transportation Plan (SATP) is the Juneau Access Road project; another is Sitka to Warm Springs Bay. Certainly, people will review the plan from the perspective that some projects are "pipe dreams." Other projects may upset people since the projects represent change. She said she wasn't advocating either way; however, this is the process used to

develop projects. Numerous hearings were held on the draft plan, which has been controversial. Funding changes and policy direction also affect the transportation plans.

[2:47:37 PM](#)

REPRESENTATIVE MILLETT related that budget amendments are due to the legislature on February 18. She asked for further clarification on when the "go" or "no go" decision will be made on the Juneau Access Road and Knik Arm Crossing projects. She asked whether the legislature will get prior notification.

ACTING COMMISSIONER BINDER answered that the DOT&PF is currently holding discussions with the governor's office. He anticipated that the decisions would happen in the near future. In further response he replied that he hoped it would be by February 18.

[2:48:34 PM](#)

SENATOR BISHOP said he still supports the [Juneau Access] road.

[2:48:47 PM](#)

CO-CHAIR HUGHES asked whether a meeting was held with Commissioner Kemp after the commissioner issued the memo [with respect to the aforementioned project].

ACTING COMMISSIONER BINDER answered that he was unsure. He recalled that the administrative order [AO 271] issued by Governor Walker requested an assessment on each of these projects and the prior commissioner provided the information to the governor's office.

[2:49:39 PM](#)

CO-CHAIR HUGHES asked which of the six projects are the most "shovel ready."

MS. RICE answered that she and Acting Commissioner Binder have only been involved recently in two of the projects so she said they would decline to comment.

[2:50:00 PM](#)

CO-CHAIR HUGHES further narrowed the aforementioned question to which projects under the DOT&PF's purview are most "shovel ready."

MS. RICE speculated that both projects are considerably far along in development. The Juneau Access Road project would have gone to construction if it had not gone to court, she said. Things will need to change; however, she couldn't predict if another court case would arise. The Knik Arm Crossing project has purchased 86 percent of the right-of-way. In addition, the whole KABATA funding structure changed last year.

[2:51:00 PM](#)

CO-CHAIR HUGHES turned to the Susitna-Watana Hydro project.

[2:51:20 PM](#)

SARA FISHER-GOAD, Executive Director, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), stated she would not give the PowerPoint on the project but provide an update on the Federal Energy Regulatory Commission [FERC] licensing process. She directed attention to the agency's response to Administrative Order No. 271. The authorized funds for the project totals \$192 million, of which \$158 million has been expended to date. Approximately \$20 million has been encumbered. If the project is shelved, it would require additional work to appropriately shut down the project to retain the data collected in a useful form for future potential development. She reported that if the project is shut down that the AEA would have approximately \$6.6 million of available funds from existing appropriations.

[2:52:45 PM](#)

MS. FISHER-GOAD noted some milestones in 2014, including that the AEA filed an initial study with FERC, which is an extensive report. The AEA has held several stakeholder meetings and of the 58 studies, the agency has completed data collection on 13 studies. She pointed out that the AEA submitted a thorough report to the legislature on January 20, 2015. An e-mail to legislators links to this report, which provides a full annual update on the status of the Susitna-Watana Hydro project.

[2:53:40 PM](#)

SENATOR BISHOP noted he is halfway through the Susitna-Watana Hydro report. He asked for further clarification on how much more money is required to obtain a FERC license.

MS. FISHER-GOAD answered that the AEA anticipates that it would require \$102 million to get to the license.

[2:54:06 PM](#)

SENATOR BISHOP asked for a timeline.

MS. FISHER-GOAD deferred to Mr. Dyok.

[2:54:20 PM](#)

WAYNE DYOK, Project Manager, Susitna-Watana Hydro, Alaska Energy Authority, Department of Commerce, Community & Economic Development (DCCED), reviewed the timeline for the Susitna-Watana Hydro project if \$102 million [was appropriated]. He anticipated that the project would file a license application to FERC in early 2017 with an anticipated issuance by FERC at the end of 2018, with construction commencing in 2019.

[2:55:10 PM](#)

REPRESENTATIVE CLAMAN asked for the current estimated cost of construction after the \$102 million necessary to obtain the permit.

MS. FISHER-GOAD reported the current estimated cost of the project engineering feasibility report of \$5.655 billion. She detailed that the agency has had three tracks in the development of the project, including that a significant portion of the funds have gone to collect environmental data to comply with the study plan determination from FERC. The financing estimate would encompass reviewing various ways the project could be financed. There has never been an assumption that the state would appropriate the \$5 billion to build the project; instead, it would be a financing process, she said. She elaborated that the financing would occur through power sales agreements and a combination of loans and bonds.

[2:55:59 PM](#)

CHAIR MICCICHE commented that the best organizations periodically pause to prioritize projects, which he viewed as a healthy exercise. He has been frustrated with the lack of infrastructure investment related to access commerce and energy. A new administration should reprioritize and evaluate directions. He did not view this process as one in which projects are eliminated forever. He expressed a range of

support for the six projects under consideration, noting he is very supportive of some and less supportive of others.

[2:58:00 PM](#)

CO-CHAIR HUGHES acknowledged that she received a range of feedback and support for these projects. She also agreed it is a good exercise. She asked for the best guess on additional costs to ramp up the Susitna-Watana Hydro project if it is shelved.

MS. FISHER-GOAD answered that the AEA has been internally struggling with the shelf life of the project. She reminded members this project was shelved in the 1980s after the state spent \$140 million. The information to show trends and consistency with respect to the data, noting the 1980s data was very valuable, the project required a complete new study plan determination and FERC approval to move forward on the 58 studies. At this point, there are too many factors to consider to provide much of an estimate. She felt it was safe to say that the project would need \$102 million, plus additional funds. She deferred to Mr. Dyok to weigh in.

[2:59:48 PM](#)

MR. DYOK replied that he did not have an educated guess; however, it would likely depend on how long the project would be shelved. The data probably would have a shelf life of three to four years, but if that if the project was shelved beyond five years the state would likely need to start over. Thus, between zero and five years, some additional costs would be necessary. He offered to provide some scenarios for the committee to consider.

[3:00:54 PM](#)

CO-CHAIR HUGHES referenced the next project, the Kodiak Launch Complex.

[3:01:17 PM](#)

CRAIG CAMPBELL, President & Chief Executive Officer, Alaska Aerospace Corporation (ACC), Department of Military and Veterans Affairs, reported, via teleconference, that in 2012 the legislature approved \$25 million in capital funds for the development of three phases of medium lift out of the Kodiak Launch Complex. Phase 1 was \$3 million for design, engineering,

infrastructure preparation, and environmental work which could be accomplished right away; Phase 2 was \$10 million which could not be spent without a signed contract; and Phase 3 for \$12 million could only be spent once the necessary additional funding was available to build a full medium lift complex. He estimated the cost at that time to be approximately \$125 million. Therefore, it was necessary to raise \$100 million against the \$25 million to the state to be able to provide medium lift. Legislation was passed for an Athena III rocket by Lockheed Martin to be built at Kodiak Launch Complex for medium lift. Over the last two years Lockheed has only been able to build a business case for the Athena II-S which is a smaller rocket with lift potential to do medium lift. Alaska Aerospace Corporation offered a Request for Proposal [RFP] to the industry as to whether there was interest in medium lifts in Alaska. It received four proposals and selected Lockheed Martin and the Athena II-S to proceed with the medium lift opportunities at Kodiak.

MR. CAMPBELL said the uniqueness was that for AAC to convert the existing launch facility at Kodiak to medium lift would only require a \$3-4 million investment, not the \$125 million required for the Athena III. He advised that a contract has not been issued as Governor Bill Walker issued AO 271, and therefore a hold was put on the project. He said that AAC advised Governor Walker that \$22 million of the \$25 million appropriation is available to the state and AAC would like the remaining \$2.3 million of the \$3 million of Phase 1 to complete medium lift for Lockheed Martin's Athena II-S at Kodiak. Currently, he noted, approximately \$700 thousand has been spent on design and other work, but there has been no construction toward medium lift. The only outstanding issue is the last phase of the Federal Aviation Administration (FAA) environmental assessment and, he offered, that it should be completed within the next sixty days.

[3:04:55 PM](#)

REPRESENTATIVE STUTES questioned if the launch is rebuilt, whether launches were lined up.

MR. CAMPBELL responded that AAC is in the process of rebuilding launch pad 1, which was not impacted by AO 271 as it is being built with insurance monies. He said the project should be completed by October 2015 for "our customer that had the last launch that is planning another launch in 2016."

[3:05:44 PM](#)

REPRESENTATIVE STUTES questioned whether the rebuilding was just for small rocket launch or whether there would be the capability of both small and medium rocket launches.

MR. CAMPBELL responded that AAC is rebuilding to small lift under the insurance monies. He highlighted that should AAC be authorized to move forward with a medium lift it would be an additional project added to the current project to provide medium capability.

[3:06:31 PM](#)

REPRESENTATIVE STUTES asked what the additional cost would be to allow medium lifts in the rebuilding process.

MR. CAMPBELL explained that the Athena II-S is a medium lift rocket and is the size that fits into AAC's current facility for small lift as it is not a tall rocket. However, he offered, it is heavier and requires a new stool, different umbilical connections, and different paneling allowing individuals to work on the rocket. He noted that it would cost approximately \$3-4 million to retrofit inside the existing facility for medium lift.

[3:07:24 PM](#)

CO-CHAIR HUGHES questioned if insurance had covered the cost of repairs for the "mishap" this summer.

MR. CAMPBELL advised that the repairs have not been completed as currently there is a demolition contract in place and the insurance adjuster engineers are assessing the work required for a rebuild. He relayed that the project is estimated to cost approximately \$29 million which will be paid through insurance, and reconstruction should start in six weeks to be completed by October.

[3:08:13 PM](#)

CO-CHAIR HUGHES moved to the Knik Arm Bridge Crossing.

[3:08:23 PM](#)

ACTING COMMISSIONER BINDER, Department of Transportation & Public Facilities (DOT&PF), stated that the purpose of the project is to improve surface transportation between the

Municipality of Anchorage and the Matanuska-Susitna Valley by constructing a bridge across the Knik Inlet. He noted there were several pieces currently in place, which includes a Letter of Authorization required from the National Marine Fisheries Service for the interruption of Beluga whales during construction due to the Marine Mammals Protection Act. He noted the letter has been requested and the anticipated time is approximately 11-13 months. He remarked that approximately 86 percent of right-of-way acquisitions have been acquired and the remaining properties are primarily government to governments which, he noted, have been put on pause as a result of AO 271. He described the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan requirement as the third pillar of the overall funding structure. It includes a letter of interest stage in which eligibility is determined as well as credit worthiness of the state, and an application stage where the loan strives to be conditionally approved and federal budget authority is obligated at that time, he explained. The total process for both stages is anticipated to take 12-18 months or longer. He noted that a procurement piece has been put on hold.

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ACTING COMMISSIONER BINDER advised that internally the contractors have been obligated, but there is a pause on those. The remaining items yet to be procured include procuring a contractor to determine who and what the design will be - about an 18-month process; an owners' representative procurement for a contractor to assist in developing the contractual documents required and oversee the administration and execution of the construction contract; to procure a tolling contractor that will both design the tolling system and be responsible for running and maintaining it after construction; and to procure a contractor to perform the annual audit required by legislation passed last year, he explained. He further noted that the project will cost roughly \$1 billion. Currently, he indicated, the project has received and expended approximately \$73 million in federal funding, approximately \$6 million in state funds, and other general fund items roughly about \$5.5 million. He assessed that the total monies expended so far is approximately \$84.8 million.

3:12:02 PM

CO-CHAIR HUGHES asked what additional costs could be expected if the state delays its TIFIA application.

ACTING COMMISSIONER BINDER responded that it would not be cost as much as how the delay would impact certain pieces, including whale permits, EIS pieces, and other pieces beyond a two-three year delay in which the pieces begin expiring and have to be redone.

CO-CHAIR HUGHES questioned whether the department had determined the cost of redoing certain pieces due to a delay.

ACTING COMMISSIONER BINDER answered no; and explained that it depends upon the length of the delay in order to determine which pieces must be redone.

[3:13:25 PM](#)

KIM RICE, Deputy Commissioner, Office of the Commissioner, Department of Transportation & Public Facilities (DOT&PF), stated that the Federal Highway Administration (FHWA) has a "rule of thumb" of three years and then requires a document being refreshed. She noted that "that doesn't mean you have to redo everything but you have to figure out if there are any laws that have changed, any impacts have changed." During this project Beluga whales were listed and were not listed previously, she observed. If nothing changes in terms of footprint, impacts, and laws do not change, then "we" say it all looks good, "it's just a review".

[3:14:10 PM](#)

SENATOR BISHOP asked how long the traffic count study would be relevant as it pertains to the TIFIA loan process.

MS. RICE responded that she would have to get back to the committee, but noted that a traffic study is a model and there are different inputs depending on planning. Development can change according to what is occurring today and what is on the market, she explained.

[3:14:50 PM](#)

CO-CHAIR HUGHES pointed out that during previous testimony it was stated that 86 percent of right-of-way has been purchased and her understanding is that all that is left is government to government. She asked if the administration supports the project as a solution to the growth in that area or if funding is the issue.

[3:15:05 PM](#)

ACTING COMMISSIONER BINDER responded that projects are being reviewed by the administration as to whether priorities are correctly aligned, and offered that the information will be revealed in the future.

[3:16:51 PM](#)

CO-CHAIR HUGHES described a situation wherein oil was \$130 per barrel and asked if the governor would support the project. She offered that possibly Acting Commissioner Binder could not answer at this time.

ACTING COMMISSIONER BINDER responded "that is correct."

[3:17:06 PM](#)

CO-CHAIR HUGHES turned to the Alaska Stand Alone Pipeline (ASAP).

[3:17:25 PM](#)

FRANK RICHARDS, Vice President, Engineering and Program Management, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), referred to a slide overview of the status of the project, and spend rate in response to AO 271. Slide 2, the AGDC was charged under AS 31.25, in House Bill 4, in developing the Alaska Stand Alone Pipeline Project (ASAP) to provide energy relief for Alaskans. The Alaska Gasline Development Corporation was granted \$355 million to advance the ASAP project through an open season and ultimately to a project sanction decision. He offered that the class-3 estimate and project execution plan has been completed, which would have been the precursors to going into a regulatory filing with the Regulatory Commission of Alaska and an open season. However, he remarked, in response to the ultimate signing of Senate Bill 138, and with the involvement of the state in the Alaska Liquefied Natural Gas (LNG) project, the policy was changed in regard to ASAP schedule as it must align its projects to co-align with the decision point within Alaska LNG as to whether or not to proceed into front-end engineering and design (FEED.) With the passage of House Bill 138, ASAP initiated an extensive review of all work activities going forward and essentially re-aligned its schedule to that the 1Q (first quarter) 2016 Alaska LNG FEED decision. Consequently, ASAP has delayed some of its commercial

activities, which is recourse filing and open season. The ASAP scaled its work projects in order to maintain the viability and readiness of the project. This includes performing work that would also be of value and benefit to the Alaska LNG project and approximately 98 percent of ASAP's center line is a common center line alignment between the two projects, he explained. In essence, all of the work ASAP is performing has value to both projects. The Alaska Stand Alone Project revised its 2015/2016 spend plan which was provided to the Office of Management and Budget and ASAP's board of directors in response to AO 271 [slide 3].

[3:20:27 PM](#)

MR. RICHARDS, referring to slide 3, stated the spend curve identifies the original spend plan to get to project sanction which totaled approximately \$150 million over the next 15-16 months to advance the ASAP project. However, ASAP prepared a new 2015/2016 work plan which reduced approximately \$90 million in expenditures which is approximately a 60 percent reduction in anticipated costs.

MR. RICHARDS pointed to slide 4 [ASAP Revised 2015/2016 Work Plan] and offered that ASAP will be delaying or deferring some of its activities, such as commercial activities, and design efforts that it normally would have proceeded with after an open season to redesign portions of the project to fit shipper commitments as it depends upon what the shippers want the project to do and be. The ASAP would then make modifications to meet their expectations which could potentially mean re-designing the gas conditioning facility to accommodate new Point Thomson gas that will be available with the ExxonMobil developments. In reference to potential intermediate compressor stations there would be procurement of long lead type items such as equipment, pipe, and specifically the major modules necessary for a gas conditioning facility. He noted that ASAP would have started its construction execution contracting in advance of a major execution. He estimated that to date ASAP has spent \$176 million following the legislature's intent under House Bill 4.

[3:22:27 PM](#)

MR. RICHARDS explained that slide 5 is a reflection of the revised schedule as an outcome of Senate Bill 138, and re-alignment of the two projects. He pointed to the one quarter of 2016 for an [Alaska LNG FEED] decision to advance either with an Alaska LNG project or continue with ASAP and do the recourse

tariff filing, the open season, and ultimately the project sanction and execution with first gas showing in 2024. He opined that legislative intent was for a backup project to the Alaska LNG, which would be ASAP. The funds from the general fund have been placed into the Instate Natural Gas Pipeline Fund created specifically for use in advancement of the ASAP project and no federal funds are being used on this project, he expressed.

[3:23:38 PM](#)

CHAIR MICCICHE advised the public that Mr. Richards and the AGDC team gave a thorough presentation of ASAP during the January 25, 2015 Senate Resources meeting.

[3:24:10 PM](#)

CO-CHAIR HUGHES characterized that much of the work ASAP has performed ties in and is helpful and usable as far as the Alaska LNG project. In the event the project was not halted, she questioned how much overlap would there be as far as what ASAP would spend that would still go into the other project. At some point, monies ASAP would be spending would not be applicable to the other project and, further questioned, if there would be any dollars going to the other project as well.

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MR. RICHARDS, referring to the spend curve shown on slide 3, said that ASAP efforts were to continue work efforts that would have transferability and durability to benefit a pipeline project in Alaska. For instance, he offered, in benefiting both projects ASAP is currently performing winter field work, and it will continue with its environmental and regulatory work. The goal is to align ASAP with the spend plan that would have major transferability. He reiterated that ASAP has completed front-end engineering and design [FEED] and are essentially several years ahead of an advance in its work as opposed to the Alaska LNG project which is now in its pre-FEED efforts. The ASAP has performed detailed engineering, environmental work, regulatory work, that is of benefit to the Alaska LNG project.

[3:26:13 PM](#)

CO-CHAIR HUGHES referred to the \$60 million Mr. Richards had discussed and questioned if ASAP already has that money or would it need to be appropriated.

MR. RICHARDS answered that the legislature "fronted" ASAP with the full \$355 million in 2013, and what is represented "here" is money in the Instate Natural Gas Pipeline Fund available for the project and no new general funds are being requested.

[3:27:41 PM](#)

CO-CHAIR HUGHES turned the gavel to Chair Micciche.

[3:28:09 PM](#)

**ADJOURNMENT**

There being no further business before the committees, the joint meeting of the House and Senate Transportation Standing Committees was adjourned at 3:28 p.m.