

**ALASKA STATE LEGISLATURE**  
**SENATE TRANSPORTATION STANDING COMMITTEE**

February 28, 2019

1:31 p.m.

**MEMBERS PRESENT**

Senator Shelley Hughes, Chair  
Senator David Wilson  
Senator Peter Micciche  
Senator Jesse Kiehl

**MEMBERS ABSENT**

Senator Mike Shower, Vice Chair

**COMMITTEE CALENDAR**

PRESENTATION(S): ALBERTA TO ALASKA RAILWAY

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

SEAN MCCOSHEN, Chair, Cofounder, and CEO  
Alberta to Alaska Railway (A2A)  
Winnipeg, Canada

**POSITION STATEMENT:** Participated in the Alberta to Alaska Railway presentation.

MEAD TREADWELL, consultant  
Treadwell Development  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the Alberta to Alaska Railway presentation.

JON KATCHEN, Counsel  
Holland and Hart  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the Alberta to Alaska Railway presentation.

## **ACTION NARRATIVE**

[1:31:21 PM](#)

**CHAIR SHELLEY HUGHES** called the Senate Transportation Standing Committee meeting to order at 1:31 p.m. Present at the call to order were Senators Wilson, Kiehl, and Chair Hughes. Senator Micciche arrived soon thereafter.

### **PRESENTATION(S): Alberta to Alaska Railway**

[1:31:53 PM](#)

CHAIR HUGHES announced the business before the committee would be a presentation by Sean McCoshen and Mead Treadwell on the Alberta to Alaska Railway (A2A).

[1:32:21 PM](#)

SEAN MCCOSHEN, Chair, co-founder, and CEO, Alberta to Alaska Railway, introduced himself.

[1:32:31 PM](#)

MEAD TREADWELL, Consultant, Treadwell Development, Anchorage, introduced himself and related that he has worked with A2A for the last five years to link Alaska to Canada by rail and he has never seen a more economic project than this one.

[1:32:59 PM](#)

SENATOR MICCICHE joined the committee.

MR. TREADWELL described the presentation as an informational session. He clarified that he and Mr. McCoshen were not advancing any particular legislation and they were not requesting money. "We just basically feel that if we can work with the state, the Alaska Railroad, and get the federal permitting done, we can bring a large new economic opportunity to the state."

MR. TREADWELL said the idea of linking Alaska to the Lower 48 by rail has been discussed many times. Colorado Governor Gilpin looked at it in the 1860s; some thought that E. W. Harriman would look at it in the 1890s when the Harriman Expedition came to Alaska; the U.S. government studied the possibility before World War II and it resulted in the Alaska Highway; the state's North Commission looked at expanding the Alaska Railroad and

linking it to the Lower 48 in the 1960s; and right of way bills were introduced for a rail link to Canada in the 1970s and 2002.

He related that Mr. McCoshen and a partner co-founded the Alberta to Alaska Railway with the goal to build, own, and operate in partnership with the Alaska Railroad a link to interconnect with the Canadian Pacific and Canadian National railroads to hook up with the oil fields at Fort McMurray and to complete a spur line to Point MacKenzie.

[1:36:18 PM](#)

CHAIR HUGHES thanked him for clarifying that they were not seeking funding from the state. She noted that her office reached out to other entities to present on the subject and A2A was the only one who accepted the offer.

MR. TREADWELL described the Alberta to Alaska Railway project speaking to the following points:

- The A2A Rail Development Corp. is developing a new rail corridor across the North connecting Alaska to the North American Railroad system. Key components of the general freight rail include:
  - Intersecting with the North American railroad system at Fort Nelson, BC, High Level, Alberta as well as Fort McMurray, Alberta
  - Transporting all forms of cargo both inbound and outbound
  - A design to handle a host of different resources including Alberta-sourced bitumen
  - An ability to add passenger service and local freight service to communities along the corridor
  - A connection with the existing Alaska Railroad system to deliver cargo to purpose built terminal facilities at ports located in Alaska, including the existing container Port of Alaska in Anchorage and Port MacKenzie, a bulk cargo port in the Mat-Su Borough.
- Builds on the work conducted by the Van Horne Institute in 2013
- Tremendous benefit to the people of the north.

MR. TREADWELL directed attention to the maps on slides 3 and 4 that look at the rail corridor. He said Alaska ports are 2-4 days shorter to Asia than ports farther south. For example, a ship carrying cargo from the port of Shanghai to the U.S. can land in Cook Inlet and interconnect with the rail system into

the heartland of the U.S. faster than from ports in the continental U.S. The ports farther south are also much more congested. The length of new rail that is envisioned is 1,516 miles with a little over 200 miles in Alaska. He listed the new rail line in China and new projects to connect Arctic seaways that are contemplated in Russia, Finland, and Norway and highlighted that, by comparison, A2A is a very small addition to the North American rail system.

[1:39:43 PM](#)

SENATOR MICCICHE asked if the research to analyze the A2A project includes a study on distribution distances and deltas to key manufacturing areas in the U.S., Tokyo, or other ports.

MR. TREADWELL explained that some of the work done by the Van Horn study was used to help A2A develop cash flows for the project and they made some assumptions based on general transpacific cargo volumes. A2A did not do specific cargo distribution studies, but they did make conservative assumptions related to the possibility of inbound cargo.

[1:41:04 PM](#)

MR. MCCOSHEN added that they sent the business study to two separate engineering firms to validate the assumptions and numbers, which will be required when they seek private sector financing. That has been paid for, he said.

[1:41:51 PM](#)

MR. TREADWELL directed attention to the Google Earth map showing the proposed rail corridor from Alaska into Canada. He said the corridor in Alaska follows the previously set aside right of way that tracks the Alaska Highway to Tok then northeast through the Ledoux River Valley to the Canadian border. The line will run close to mineralization in the Yukon which will bring access to mining potential in the area. It then travels through British Columbia to northern Alberta. He highlighted that the Google Map has the names of the First Nations along the route. In Alaska, the route is through the Doyon region. Further along there is a group of First Nations in the Yukon, one First Nation in British Columbia, and another group of first Nations in Alberta. Up till now the company has been working on building relationships with the First Nation groups instead of holding/attending public meetings such as this, he said.

CHAIR HUGHES asked if there is rail along any of the proposed route.

MR. MCCOSHEN replied it's all new rail.

MR. TREADWELL clarified that the new rail intersects with rail systems in British Columbia and northern Alberta.

CHAIR HUGHES asked how long it would take a railcar to travel from Fort McMurray to Anchorage.

MR. MCCOSHEN estimated it would be less than two days.

MR. TREADWELL added that it would depend on speed, the grade, and curvature.

He turned to slide 5, "A2A Rail Management Resources and Financial Backing" and discussed the following bullet points:

- The management team has retained advisors in all key aspects of project development
  - Engineering - HDR
  - Environmental - HDR
  - Financial - Bridging Finance Inc.
  - Indigenous Engagement - Fogler Rubinoff LLP
  - Legal - Holland & Hart
  - Strategic advisors - Jack Ferguson, Mead Treadwell
- The Principals behind A2A Rail have funded all development costs to date (\$35 million), own 100% of the equity and are prepared to fund construction of the rail spur (\$125 million)

CHAIR HUGHES offered her understanding that A2A is a three-phase project. Phase one costs have been about \$35 million and the project is about to enter phase two.

MR. TREADWELL said that's the hope. They are currently working on the Presidential Permit, the agreement with the Alaska Railroad, certain agreements with First Nations along the route, and some small land-leasing issues with the Department of Natural Resources (DNR) and in Canada.

He highlighted Mr. McCoshen's background and business career speaking to the following bullet points:

- Sean McCoshen is the co-founder of the Alberta - Alaska Railway Development Corporation. He is also the Chairman and Chief Executive Officer of the McCoshen Group, a family office, that owns 14 privately held

companies ranging from housing, manufacturing, finance, retail, and rail.

- Established in 2012, The McCoshen Group has secured in excess of 1 billion dollars in transactions in less than 7 years. The McCoshen Group (MG) is a privately held company which has assets of \$740 million. Mr. McCoshen is the sole-shareholder. Alberta - Alaska Railway Development Corporation is TRACE certified.
- Prior to founding the McCoshen Group, Sean worked in private banking in conjunction with a number of large American-based private equity firms until his retirement in 2007.
- Sean grew up in Troy, New York and as a teenager moved to Winnipeg, Manitoba. He earned a Bachelor of Arts degree with a double major in Political Science and Philosophy from McGill University in Montreal and a Bachelor of Laws Degree from the University of Ontario in London, Ontario.
- He currently lives in Winnipeg Manitoba, Vancouver British Columbia and West Hollywood California with his 7-year-old son.

1:48:05 PM

MR. TREADWELL turned to slide 7, "A2A Rail Financial Plan" and discussed the following points:

- The project cost is estimated to be approximately \$17 billion, \$3 billion or more will be spent in Alaska construction. Approximately \$4 billion in steady-state revenues annually are projected to cover costs of operation and capital.
- Private financing, with some support from global sovereign backed infrastructure funding institutions, is expected. Canada is launching an infrastructure bank. Throughput agreements between commodity buyers and sellers will help back construction financing.

CHAIR HUGHES asked if the funding to help equip the existing railroad would come from the project itself.

MR. TREADWELL said the negotiations with the Alaska Railroad aren't finished but it's clear that the \$3 billion financing in Alaska would be driven by the same offtake commitments that would allow the \$17 billion financing for the rest of the line. He said they would look for the optimal financing plan as the costs are developed.

SENATOR MICCICHE referenced the statement about intersecting with two existing rail systems to get to the Fort McMurray terminus. He asked why there isn't a phased development using the existing rail. He surmised that it was related to having an anchor tenant.

[1:50:31 PM](#)

MR. MCCOSHEN responded that there is no other rail line. Phase one to finish the spur line to Port MacKenzie would cost \$125 million. Phase two would go to Fort Nelson and phase three would go to Fort McMurray, Alberta.

MR. TREADWELL added that in order to get the major throughput, it's necessary to get to Fort McMurray. There are interconnections at the other two rail points to the North American rail system for "regular freight" but there is not a rail link into Fort McMurray that is as direct as A2A can offer.

SENATOR KIEHL questioned the reason for going through the Yukon as opposed to the closer tidewater ice-free deep water ports.

MR. MCCOSHEN said Mr. Treadwell can discuss the valid reasons not to do that.

MR. TREADWELL explained that to move petroleum products to the British Columbia coast entails going over the Rockies, which is expensive. The energy used to carry a good from Alberta to tidewater saves shipping costs and time and uses less energy.

SENATOR KIEHL pointed out that Haines and Skagway sit at 59 degrees latitude.

MR. TREADWELL said we expect that this project will build traffic from ports in Alaska such as Skagway, Haines, Valdez, Seward, Anchorage, Port MacKenzie, and potentially the Arctic.

[1:56:20 PM](#)

MR. MCCOSHEN added that \$20 million of the \$35 million that has been spent was on engineering the correct route for speedy delivery to China and the North American continent. He stressed that, "The white route on the map is the fastest route to Alaska"

MR. TREADWELL read the second bullet on slide 7 to emphasize the work that has already been done to secure financing for the project. He said Yukon First Nations are expecting more

infrastructure development funds to open access to their mines. The Alberta government anticipates a \$3 billion expenditure to improve market access for their oil. This is part of the market opportunity A2A is responding to. He said the reason people haven't heard a lot about the A2A project is because they've been working on the Presidential Permit to cross the border and with First Nations.

CHAIR HUGHES asked him to talk about the social license.

MR. TREADWELL deferred the question. He said a primary point he and Mr. McCoshen want to leave with the committee is that for Alaska, this is an opportune time in the transportation industry. West Coast ports and rail lines have congestion problems; it's easier to build on "frontier land" than to widen rights-of-ways through cities; and West Coast ports want to get rid of cargos that require too much space. The A2A project will build a rail line that is speedy and closer to Asia, and it will remove some of the inefficiencies associated with bringing goods in and out of North America. He said an estimated \$750 billion in mineral resources are within 100 miles of the proposed rail corridor. He emphasized that transportation alternatives will change the economics of many Alaskan enterprises.

CHAIR HUGHES asked how much of the estimated \$750 billion in mineral resources is in Alaska.

MR. TREADWELL said the Alaska Department of Natural Resources has estimated that Alaska's resources and mineral capabilities are in the trillions of dollars.

CHAIR HUGHES asked how much is specifically within 100 miles of the proposed corridor.

MR. TREADWELL responded that there are several large gold prospects where the rail crosses the border into Canada, there's one prospect near Tetlin, and there is capability along the Alaska Railroad to serve the cement market. He acknowledged that they would have a better answer as they look at ways to pay for the Port MacKenzie spur.

[2:03:31 PM](#)

SENATOR MICCICHE highlighted that natural gas pipelines have a given resource and a target market, and volume is a consideration of pressure and diameter. He asked what the volumetric consideration is on whether a railroad is a build or

no build. He said he assumes it is a very different kind of science.

MR. MCCOSHEN replied that they have a supply agreement with the producers in Alberta and an offtake agreement with the buyers in Asia. He described the due diligence his family company went through when he became interested in the project. The ultimate decision was that this project is very doable and nicely profitable. He said there is also massive room for expansion. He reiterated that the company has spent \$35 million and expects to invest another \$10-15 million to keep the project moving forward. He will personally spend another \$125 million if certain conditions occur. He described the project as a "no brainer." The business case has been validated twice by engineering firms and various individuals and private equity firms interested in the project. The question now, he said, is whether there is the political will to get this done.

MR. TREADWELL referenced Senator Micciche's question about economics. He related that they initially looked at the Van Horn analysis which was \$12 to \$21 to get a barrel of bitumen to tidewater. That analysis was to bring 1.5 million barrels/day of bitumen to Glennallen or North Pole and put it in the Trans Alaska Pipeline System (TAPS). A2A determined that was not economic and changed the route. Doing so brought the per barrel cost to get to tidewater down to \$10-\$15. He said we believe that is more economic than a pipeline from Alberta to tidewater. That is the economic advantage we're trying to exploit, he said. Not going through the liquification process with the bitumen is also a substantial cost savings.

[2:13:01 PM](#)

SENATOR MICCICHE asked if the project is economic one way and the backhaul is the "cream."

MR. TREADWELL replied he didn't know of a specific commodity but there are two-way flows on the railroad "where locomotion would be available as backhaul."

MR. MCCOSHEN clarified that the financial modeling was done on a one-way haul. That's how most shipping is budgeted, he said.

CHAIR HUGHES commented on the potential for Asian backhauls and sending Palmer carrots to the Lower 48.

SENATOR KIEHL asked how 10-12 unit trains compares to 1 million to 1.5 million barrels.

MR. TREADWELL replied they're the same; 6-12 unit trains carry 1 million to 1.5 million barrels.

CHAIR HUGHES asked if A2A would also develop the shipping.

[2:15:06 PM](#)

MR. MCCOSHEN said no; it is standard practice for the buyer to arrange for and pay the cost of the boat.

CHAIR HUGHES asked, other than the Presidential Permit, if there was "any other political will piece needed from Alaska."

MR. TREADWELL listed strong cooperation with the Alaska Railroad, legislation similar to what passed in 2004 to set up a relationship between the railroad and DNR on rail extension rights of way, support for the federal Surface Transportation Board permit, being a cooperating agency for the environmental impact statement (EIS), help in determining the right of way, making state land available for the right of way, and finishing A2A's agreement with the Alaska Railroad to lease the right of way. His understanding is that the governor has communicated support.

MR. MCCOSHEN added that this is the first time there is an economic argument for the private sector carrying through on this long-discussed rail link.

CHAIR HUGHES asked if the Presidential Permit comes first and the Surface Transportation Board permit comes later.

MR. TREADWELL answered yes.

CHAIR HUGHES asked if A2A is just starting to work on the Alaska Railroad/DNR relationship.

MR. TREADWELL answered yes.

[2:18:49 PM](#)

MR. MCCOSHEN added that they are ready to start building as soon as the negotiations are complete.

MR. TREADWELL referenced slide 9 that highlights the importance of agreements with indigenous groups in both Alaska and Canada. He said the large sovereign banks in Asia have asked about this because they too realize how important it is.

MR. TREADWELL turned to slide 10, "Master Agreement - Alaska Railroad" and discussed the following bullet points:

- A2A is developing a Master Agreement with the Alaska Railroad, key terms include:
  - Defining cooperation to achieve permitting, including the ROW and Presidential Permit
  - Identifying material lease terms
  - Establishing key economic principles that will support financing
- Success will drive higher utilization of ARRC facilities and greater revenues
- Will allow ARRC to better serve the Alaska's resource industry while maintaining passenger service

He asked Jon Katchen if he'd like to speak to the right of way and Presidential Permit.

[2:21:27 PM](#)

JON KATCHEN, Counsel, Holland & Hart, LLC, Anchorage, said he'd prefer not to go into detail since negotiations with the railroad are ongoing, but it's a high-level agreement that will help define the relationship between A2A and the Alaska Railroad on permitting, cost sharing, and the lease agreement.

MR. TREADWELL turned to slide 11, "Complete the Port MacKenzie Rail Extension" and discussed the following points:

- A2A will fund the unfunded portion of Mat-Su Borough's Rail extension project
  - Once the lease and operating agreement is finalized construction will commence
- A2A will design and develop a multi-purpose rail yard
  - The design will allow for rail shippers to move a variety of types of cargo both inbound and outbound

[2:24:39 PM](#)

MR. MCCOSHEN said the existing rail line at Port MacKenzie is stunningly beautiful but it was never finished. He said A2A will incorporate it into the big picture if at all possible but the negotiations have already gone on for a long time. If it doesn't happen, the money will be spent on other ports. He noted that the Alaska Railroad will need to be upgraded for this kind of traffic.

CHAIR HUGHES asked if Port MacKenzie will make growth easier.

MR. MCCOSHEN said he didn't believe there would be 10-12 trains per day through Port MacKenzie. The other ports have expansion capability and they don't have the strong tides to contend with that Port MacKenzie has.

[2:29:49 PM](#)

MR. TREADWELL skipped to slide 13, "Design for Efficiency and Safety" to respond to Senator Kiehl's question about why and how the route was selected. He discussed the following points:

- The project has been designed with an eye to reducing fuel consumption and improving safety
  - The grade will average less than 1%
  - The degree of curvature will not exceed 5%
  - This is considerably better than existing CP or CN lines
  - The project will focus on handling goods that are not hazardous

He noted that some tunnels will be required in Canada.

MR. TREADWELL concluded the presentation with a discussion of "Next Steps." He spoke to the following points:

- A2A is working with the Dunleavy Administration to:
  - Finalize the Master Agreement with the ARRC
  - Support in the negotiations with the Mat-Su Borough and Assembly
  - Support for the Presidential Permit
  - Support for the right of way, establishing the rail corridor
  - Cooperation to identify opportunities for ANCs and Village Corporations along the alignment

MR. TREADWELL noted that there is no specific criteria for getting a Presidential Permit and there is no geopolitical reason to deny a rail line from crossing the U.S. Canada border. Nonetheless, A2A is pleased that Governor Dunleavy has signaled his support for the permit to President Trump. They have also asked state government to work together on the right of way and establishing the rail corridor. His understanding is that the 460 right of way process can sometimes cause problems. The current negotiations are to work with the railroad on that process.

[2:35:32 PM](#)

CHAIR HUGHES asked if it would be helpful if the legislature passed a resolution supporting a Presidential Permit, and if the permit could be transferred to another company should A2A decide against moving forward.

MR. TREADWELL confirmed that a resolution would be helpful.

MR. MCCOSHEN said a resolution would be a shot in the arm to keep him going, but he believes the legislation and Presidential Permit would need to be specific to one company.

MR. TREADWELL said A2A's draft agreement with the Alaska Railroad contemplates what happens to the right of way. Under existing Alaska law, the state would retain ownership of the land and the railroad would lease to the corporation. If the corporation didn't work for some reason, the railroad would still own the right of way and presumably the improvements. He offered to work with the committee on the language for the resolution.

CHAIR HUGHES asked if there was a study on the economic impact (jobs in particular) to Alaska if this project were to go through.

MR. TREADWELL said he couldn't be specific but this project entails hundreds of fulltime railroad jobs and thousands of jobs overall. Better studies will be forthcoming, he said. Responding to a further comment, he said the whole idea is that this project will have a positive impact on the economy.

He concluded the presentation highlighting that Alaska is an air crossroad of the world and this project offers similar opportunity for the cargo market. "I see this as Alaska coming into its destiny," he said.

[2:44:37 PM](#)

MR. MCCOSHEN added that both Alaska and Canada are all about resources and transportation and this project is their destiny.

[2:46:31 PM](#)

SENATOR KIEHL asked about the spill risk if the plan is to load and unload the bitumen hot and transport cold.

MR. MCCOSHEN said the product will be loaded warm with no diluent and will be transported cold. Thus it would be relatively easy to clean up if there was a spill.

MR. TREADWELL said discussions on the water-based aspect of this venture have not begun, but they have looked at rail standards and safety and included them in the cost estimates. He noted that transporting the oil cold is safer and it improves the economics. He said he expects this will be a major issue in the EIS but it should not be a showstopper.

2:50:30 PM

SENATOR MICCICHE commented on the value of backhaul traffic and asked if railroads look at that future growth as a means of maximizing profitability.

MR. MCCOSHEN described backhaul container traffic as icing on the cake. He reiterated that the project analysis conservatively banked on [bitumen] going one way and backhauling empty, but anyone in the rail business will ship everything possible.

MR. TREADWELL said railroads make estimates based on the current market so the focus is on the bitumen market but there may be some meaningful percentage of container flows from east to west.

CHAIR HUGHES asked the presenters to conclude with a discussion of the ideal timeline for the project.

MR. MCCOSHEN said once the agreements, permits, and rights of way are obtained A2A can go to the capital markets to finance major engineering. The main construction down to Fort Nelson could probably start in 18-24 months and the construction will take about 2.5 years.

MR. TREADWELL added that the goal is to work through the basic agreements this year, do solid engineering in 2020, and be formally before the relevant agencies for approval in 2-3 years.

2:57:55 PM

CHAIR HUGHES observed that if everything "stays on track" cars could be moving by 2024-2025

MR. MCCOSHEN clarified that if things go as planned, a small number of cars could be moving within a year and a major number of cars would be moving in 2022.

CHAIR HUGHES thanked the presenters for an informative presentation and expressed hope that this would be part of Alaska's destiny.

2:59:07 PM

There being no further business to come before the committee, Chair Hughes adjourned the Senate Transportation Standing Committee meeting at 2:59 pm.