

S C R

6

SENATE COMMITTEE REPORT

FURTHER

RES
FIN

2/2/89

DATE TURNED INTO OFFICE

2/3/89

Mr. President:

ITT

Committee considered

HCR 6

Supporting the development of coal mining at Wishbone Hill

and recommended

- replace with _____ CS _____) same title
- or adopt _____ CS _____) new title
- attached amendment(s) and technical title change (HB only)
- _____ letter of intent adopted

de pass

do not pass

no recommendation

individual recommendations

further referral to _____

- FISCAL NOTE(S) zero fiscal impact appropriation no FN
- new updated previous
- same as previous fiscal note(s) published _____

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Rick Halvord

D. ...

...

Curtis ...

Bettye Fabrensky DePass

Chairman signature and recommendation

Committee Backup attached

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: SCR 6
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: 2-Feb-89 Agency Affected: Natural Resources
Title: Supporting the development of BRU: Mining Management
coal mining at Wishbone Hill.
Sponsor: Uehling, Szymanski, Kertulla, Jones, Halford, Kelly, Sturgulewski, Fiaks
Requestor: Senate Resources

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND					
FEDERAL FUNDS					
OTHER					
TOTAL	0.0				

POSITIONS:

FULL-TIME					
PART-TIME					
TEMPORARY					

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Larry Ostrovsky Phone: 465-2400
Division: Commissioners Office Date: 2-Feb-89
Approved by Commissioner: Lennie Gorsuch Date: 2-Feb-89
Agency: Department of Natural Resources

Distribution (by preparer) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Attachments:

- A. Project Description
- B. Endorsements from the Matanuska-Susitna Borough
 - Resolution 88-199
 - Resolution 89-019
- C. Endorsement from the City of Palmer
 - Resolution 809
- D. Endorsement of the Greater Sutton Chamber of Commerce
 - Letter to Senator Szymanski
- E. Letter of Support from Usibelli Coal Mine, Inc.
- F. Support of the State Economic Recovery Committee
- G. Media Coverage
 - The Observer, Jan. 13, 1989

WISHBONE HILL PROJECT

Wishbone Hill is a surface coal development project located in south central Alaska, approximately 45 miles northeast of Anchorage. The project consists of eight state coal leases that are 100 percent owned by Idemitsu Alaska, Inc., a subsidiary of Idemitsu Kosan Co., Ltd. Idemitsu Kosan is the largest independent oil company in Japan and is actively involved in coal development and mining activities world wide. They currently use coal in their oil refineries as well as supply coal, gas and oil to many of the Japanese power utilities.

Exploration and development work on the proposed Wishbone Hill surface coal mining project has been in progress since 1983. To date, approximately 150 exploration and development holes have been completed on the project area. Through this work, a surface mineable reserve of high quality bituminous coal sufficient for a 12 to 14 year mine life has been defined. The most recent feasibility study, completed in 1988, indicates that this coal can potentially compete internationally on a cost and quality basis.

The Wishbone Hill Project is one of the closest Free World sources of bituminous coal to the nations of the Pacific Rim. Compared to other Alaskan and international coals, substantial transportation advantages exist for the Wishbone Hill coal because of Alaska's proximity to the Pacific Rim, the project's easy access to the Alaskan rail and a new coal loadout terminal at the nearby port of Seward. Idemitsu Kosan is currently finalizing arrangements with Japanese power utilities which are scheduled to have new power generating units coming on-line in 1990 and 1991. Therefore, it is imperative that the Wishbone Hill Project be fully permitted and into production by 1991 to accommodate this market opportunity.

State wide, a great deal of support has been displayed for the project; however, a potential area of concern focuses on the coal truck transportation requirements. In order to mitigate this concern and facilitate the timely development of the project, the mine developers feel that a 12-mile section of the Glenn Highway should be upgraded even though it is not technically necessary for the proposed coal hauling activities. Recognizing that the Wishbone Hill coal must compete in a highly competitive international market, it is imperative that capital project costs be held to a minimum. To effectively create a viable project that will benefit both the private and public sectors, the mine developer cannot bear the full financial burden for upgrading a substandard public highway. Therefore, a mix of Federal, State and private funding will be necessary to complete the required upgrade work.

To date, project expenditures have exceeded 4.0 million dollars. This money has been used to define an economic coal reserve base and initiate permitting and detailed engineering activities. The current project schedule anticipates that all of the necessary permits and approvals will be secured by mid-1990 to accommodate a 1991 start-up. The mine, as currently envisioned, would produce approximately one million metric tons of clean coal per year. Employment at full production would consist of 130 full time jobs with an annual payroll of approximately ten million dollars per year.

MATANUSKA-SUSITNA BOROUGH

ASSEMBLY RESOLUTION SERIAL NUMBER 89-019AM

"A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH URGING THAT THE ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES DEVELOP AN EQUITABLE POLICY FOR FUNDING ROAD AND HIGHWAY PROJECTS IN WHICH THE STATE HAS A PRIMARY ECONOMIC DEVELOPMENT INTEREST."

WHEREAS, the Alaska Department of Transportation and Public Facilities administers Federal and State highway funding programs for the State; and

WHEREAS, adequate transportation infrastructure is a basic requirement in order to attract economic development projects and new investment; and

WHEREAS, Alaska does not have an adequate transportation infrastructure, particularly in the Matanuska-Susitna Borough; and

WHEREAS, the Matanuska-Susitna Borough and State of Alaska have attracted two very important economic development projects: the Hatcher Pass Ski Resort and Wishbone Hill Coal Mine; and

WHEREAS, the State roads providing access to these projects, Willow Fishhook (milepost 7 to milepost 14) and the Glenn Highway (milepost 35 to milepost 56) are substandard and have been substandard for many years; and

WHEREAS, the Willow Fishhook and Glenn Highway serve as major transportation corridors for the general public as well as regional and out-of-state tourists; and

WHEREAS, Alaska Department of Transportation and Public Facilities has proposed that the private sector firms developing the Hatcher Pass Ski Resort and the Wishbone Hill Coal Mine pay for a significant portion of the upgrades of these publicly used roadways; and

WHEREAS, it is inconsistent and poor business practice for the State of Alaska to aggressively seek foreign and out-of-state investors and then to expect these investors to fund a significant portion of the upgrade costs for substandard roads that are used by the general public; and

WHEREAS, the Alaska Department of Transportation and Public Facilities has proposed that the funds for the upgrades come from the previously approved upgrade of the Glenn Highway between Eklutna and Parks Highway; and

WHEREAS, other municipalities within the State have had accelerated road programs which have delayed road projects in the Matanuska-Susitna Borough and other areas of the State.

NOW, THEREFORE, BE IT RESOLVED: that the Assembly of the Matanuska-Susitna Borough believes improving publicly used substandard roads and developing an adequate transportation infrastructure is a fundamental role of the State and the Alaska Department of Transportation and Public Facilities; and

BE IT FURTHER RESOLVED: that the Assembly of the Matanuska-Susitna Borough believes that private sector firms should be charged for reasonable costs associated with their projects and not to bear significant a financial burden for upgrading roads that are already substandard; and

BE IT FURTHER RESOLVED: that the State of Alaska should have a consistent marketing approach that does not penalize new Alaskan investors by forcing them to significantly fund upgrades of substandard roads that are used by the general public; and

BE IT FURTHER RESOLVED: that the Assembly of the Matanuska-Susitna Borough believes that if private sector firms are being charged for significant portions of the projects then these private sector firms should be given the opportunity to design and manage the construction of the projects; and

BE IT FURTHER RESOLVED: that the Assembly of the Matanuska-Susitna Borough urges the State of Alaska to develop an accelerated road program for the Borough's economic development projects, especially the Hatcher Pass Ski Resort and the Wishbone Hill Coal Mine.

UNANIMOUSLY PASSED AND APPROVED by the Assembly of the Matanuska-Susitna Borough this 17 day of January, 1989.

Linda Dahl
Linda Dahl
Borough Clerk

Dorothy A. Jones
Dorothy A. Jones
Mayor
Matanuska-Susitna Borough

MATANUSKA-SUSITNA BOROUGH
RESOLUTION SERIAL NO. 88-199

A RESOLUTION OF THE ASSEMBLY OF THE MATANUSKA-SUSITNA BOROUGH
SUPPORTING THE MINING OF COAL FROM THE WISHBONE HILL
FIELD.

WHEREAS, Idemitsu Kosan Corporation of Japan proposes to develop and export coal from the Wishbone Hill Field in the Buffalo Mine to Eska area of the Matanuska-Susitna Borough; and

WHEREAS, the Borough is generally supportive of the mining industry; and

WHEREAS, this endeavor would broaden and diversify the Borough economy in a basic sector creating an estimated 180 basic jobs and an even larger number of jobs in the secondary sector; and

WHEREAS, the Borough currently suffers one of the highest unemployment rates in the State; and

WHEREAS, coal mining is a traditional industry in the Borough and qualified people are available locally to fill most, if not all, positions that would be needed to conduct this mining enterprise;

NOW THEREFORE, BE IT RESOLVED, that the Assembly of the Matanuska-Susitna Borough strongly supports the efforts of Idemitsu Kosan Corporation to develop the Wishbone Hill Coal Field; and

BE IT FURTHER RESOLVED, that the Borough urges Idemitsu Kosan Corporation to hire Borough residents in so far as practicable to conduct its operations.

PASSED AND APPROVED by the Assembly of the Matanuska-Susitna Borough this 4th day of October, 1988.

Dorothy A. Jones
Dorothy A. Jones, Mayor

ATTEST;

Joanne P. Schrock for
Linda A. Dahl, Borough Clerk
Linda Dahl

CITY OF PALMER, ALASKA

RESOLUTION NO. 809

A RESOLUTION SUPPORTING THE MINING OF COAL FROM WISHBONE HILL FIELD.

WHEREAS, Idemitsu Kosan has expressed an interest in reopening the coal mining operations in the Wishbone Hill area, and

WHEREAS, 1991 is the target date to begin shipment of coal from the Wishbone Hill area, and

WHEREAS, the initial outlook is for coal to be mined for a twelve year period, and

WHEREAS, the coal mining operation will employ approximately 180 personnel upon reaching full operation, and

WHEREAS, the thrust is for economic development both on the local and state level of government, and

WHEREAS, the need for cooperation and assistance from the State of Alaska is needed to assure the 1991 coal delivery date, and

WHEREAS, the transportation of the coal will be over the road and by rail to Seward for shipment to Japan, and

WHEREAS, part of the transportation package requires that the Glenn Highway be upgraded from south Palmer to Moose Creek, and

WHEREAS, financial participation from the State of Alaska and Idemitsu Kosan is needed for this vital segment of the transportation element.

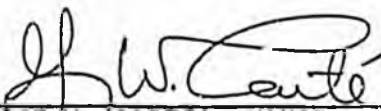
NOW, THEREFORE, BE IT RESOLVED that the City of Palmer urges the Alaska Railroad to establish reasonable rail transportation rates for the shipment of coal to Seward.

BE IT FURTHER RESOLVED that the State of Alaska participate in an equitable financing of the Glenn Highway upgrade which will be impacted by not only the increased coal hauling traffic but tourist traffic to Hatcher Pass as well.

BE IT FURTHER RESOLVED that the State of Alaska provide an expeditious review of the permitting process which will assist Idemitsu Kosan to meet the 1991 deadline for beginning operations.

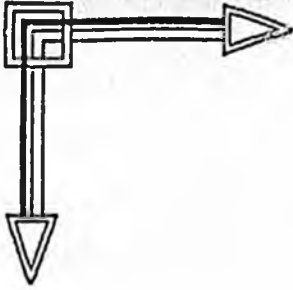
Publication of this Resolution shall be by posting a copy hereof on the City Hall bulletin board for a period of ten (10) days following its passage and approval.

Passed and approved by the City Council of the City of Palmer, Alaska, this 24th day of January, 1989.



GEORGE W. CARTE, MAYOR

DAVID L. SOULAK, CITY CLERK



Greater Sutton Chamber of Commerce
PO Box 24
Sutton, Alaska 99674
Lynne Woods, President
907745-4527

April 26, 1988

Senator Mike Szymanski
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, AK 99811

RE: Coal Development in the Sutton Area

Dear Senator Szymanski,

The Sutton Chamber of Commerce supports development of our coal resources. We have met with representatives and are in favor of their initial proposals for extraction and exportation methods. Our support, by no means, overrides our concerns for protection of the environment in the Moose Creek and Sutton areas.

We urge you to assist Hawley Resource Group and Idemitsu-Kosan in anyway that you can. They have begun the permitting process and we are in hopes of their positive decision to go ahead with the project in February 1989.

We fully realize special consideration by state and local government will need to be made on the increased use of the Glenn Highway from Palmer to Mile 54. Your attention in this area could also signal Hawley Resource Group and Idemitsu-Kosan that we are most interested in their capital investment.

Sincerely,

Barbara Leppanen

Barbara Leppanen
Secretary/Sutton
Chamber of Commerce

USIBELLI COAL MINE, INC.

MARKETING

122 First Avenue
Suite 302
Fairbanks, Alaska 99701
(907) 452-2626
FAX 451-6543

January 30, 1989

Senator Rick Uehling
P.O. Box 7
Juneau, AK 998810

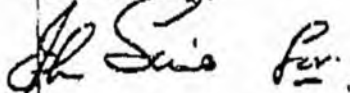
Dear Rick,

I am writing in support of the Wishbone Hill Project which is being pursued by Idemitsu Kosan near Palmer.

Attempts to foster expansion of Alaska's fledgling coal industry should be strongly supported by the Administration and the State Legislature. It is appropriate that such support be in the form of needed transportation infrastructure upgrading such as road improvements. Given the present embryonic stage of modern coal mining in Alaska it would also be appropriate for the legislature to review present rental, royalty and other tax rates with a view to improving the competitiveness of Alaska coal. Such analysis should also consider incentive measures which the state could develop to help the industry build critical mass and ultimately benefit from economics of scale which are vitally important to the competitiveness of the industry.

Usibelli Coal Mine enjoys a good working relationship with Idemitsu Kosan the prospective developer of Wishbone Hill Mine.

Sincerely,



Joe Usibelli, Jr.
President
Usibelli Coal Mine, Inc.

JU/me

STATE ECONOMIC RECOVERY COMMITTEE

Dear State Legislator:

The members of the State Economic Recovery Committee, over the last several months, have reviewed over 20 proposals from all regions of our great state. The attending committee members have unanimously selected 8 of these proposals for funding consideration by yourself and the Legislature.

Each of these projects has been analyzed in terms of 14 criteria that the Committee established as a basis for determining their support. It is our belief, after careful analysis of these projects, that the infrastructure funding requested from the State of Alaska will truly result in solid economic growth as the private sector utilizes these improvements to create or expand their operations, thus creating long-term jobs and a more stable tax base for both the local communities and the State of Alaska.

Enclosed are brief summaries of these projects, as well as the committee's policy statement and membership list. Not enclosed, but available as needed, is a wealth of data on each project, including engineering studies, market analysis, and letters and resolutions of support from both private firms and local governments.

Thank you for your consideration of these projects. Working together, we can achieve the diversification of our economy that will be a focus of legislative activity during the next session. We are available to assist you in any way.

Sincerely yours,

George M. Sullivan
Co-Chairman

In Concurrence:

Mayor Dorothy Jones, Mat-Su Borough
Mayor John Dapcevich of Sitka
Polly Prchal, Manager City of Nome
Phil Younker, Fairbanks
Wilson Hughes, Enserch

Tom Friessen, Ketchikan
Jerry Harmon, Eastwind Construction
Wally Burnett, Fairbanks
Malcomb Roberts, Commonwealth North

STATE ECONOMIC RECOVERY COMMITTEE

Project Review

Project Title: Wishbone Hill Coal Project - Road Upgrade

DESCRIPTION: The Matanuska-Susitna Borough is seeking funds for road improvements along 13 miles of the Glenn Highway north of Palmer. The road upgrade will help facilitate the development of the Wishbone Hill Coal Field. Idimitsu-Kosan, Inc., an international development corporation, has, since 1983, conducted exploration and feasibility studies and applied for mining permits for their proposed coal mine. The highway to the site entry road will be widened, and passing lanes added to ensure the efficiency of the increased heavy vehicle traffic that will be required in support of the development.

GOVERNMENT INFRASTRUCTURE INVESTMENT: The construction costs are estimated between \$1,500,000 and \$5,820,000. The Mat-Su Borough is willing to commit \$500,000 towards the costs, with the remainder of the funds sought from the State of Alaska through the Department of Transportation.

PRIVATE SECTOR INVESTMENT: Idimitsu-Kosan has already spent nearly \$3,000,000 in the preliminary stages of this project, and is prepared to commit another \$40-50,000,000 to develop a fully operational facility. The project is scheduled to commence production activity in mid 1991.

EMPLOYMENT: This venture will create an estimated 180 long term jobs, most of which can be accommodated by the Southcentral work force. This development should positively impact regional support industries, particularly the trucking, fuel and machinery supply sectors.

COMMITTEE ANALYSIS: The Committee felt that this project has the potential to be a major economic boost to the economically ailing Mat-Su Borough. The Borough government is aggressively pursuing viable public/private partnership ventures and it is paying dividends.

Other coal mining concerns within the Borough should not be negatively impacted as this proposed mine will be extracting a different quality of coal with different markets also identified.

The developer will bear all site operating, maintenance and reclamation costs, but the highway arterial servicing the site will remain a government maintenance cost. Such costs are more than accommodated by the expanded state and local tax benefits created by the Wishbone Hill Mining activity.

The Committee endorses the State infrastructure funding requested by the Mat-Su Borough as part of a multi-phase effort to revitalize and stabilize our State's economy.

Japanese electricity from an Alaskan wishbone

by Mark Harris

Why would Japan's largest independent oil company spend up to \$70 million to open a small coal mine 50 miles east of Anchorage? There are a lot of reasons that make perfectly good sense to the Japanese. The nice part is they make good economic sense for Alaska too.

Idemitsu Kosan (IK for short) wants to mine about one million tons a year of bituminous coal from the hills above Sutton. This integrated energy conglomerate owns several oil refineries and is active in coal and other mining developments worldwide. It supplies coal, gas and oil to many of Japan's electric utilities.

IK is serious about this Alaska venture. Serious enough to buy out the lease interests of two American coal developers, to form a U.S. subsidiary called Idemitsu Alaska, Inc., to hire a project management firm and spend \$4 million on exploration and pre-development work.

During U.S.-Japan trade negotiations in 1988, Japanese utilities came under pressure to buy U.S. coal. This Alaska project, while small by international standards, is seen as a good business deal and good for U.S.-Japan trade relations.

In 1987 IK gained 100 percent equity interest in what has become known as the Wishbone Hill Coal Project. The firm has been increasing its marketing efforts ever since. Existing electrical generating plants and those under construction in Japan are designed to use bituminous coal. So a long-term market is not a problem. Breaking into that market with Alaska coal is another matter.

Australia supplies 70 percent of Japan's coal along with South Africa and Columbia. Japan wants to diversify its sources. The Alaska project would come on line just as new coal-fired plants are ready for service in 1991.

Coal shipped from the Suncel Coal Terminal in Seward would have about four days fewer transport time than Australian coal. Seward is about 3,000 miles from Japan's main industrial ports — about 1,000 miles closer than Australia shipping points. Since shipping costs account for about 15 percent of coal costs, this presents a market advantage.

The advantage holds up when comparing Wishbone coal to bituminous coal from the western U.S. as well. Rail

costs to tidewater eat up what little distance advantage west coast terminals have over Alaska.

By international and Lower 48 standards this is a small project. Two mines in Wyoming alone produce 33 million



"If the railroad stays with its initial quotes, the project will simply go away," says David Germer. Mark Harris Photo.

tons a year. However, put in a more relevant context, Wishbone is quite large. Idemitsu currently imports about 6 million tons of coal annually for its own refineries and for power utility customers. At 1 million tons per year, the Wishbone project would hold a considerable share of new market

sources.

Wishbone Hill is noted for hard, dry bituminous coal. It burns at about 11,500 Btu and holds 6-9 percent moisture, according to David Germer, project manager for IK's Alaska engineering representative McKinley Mining Consultants, Inc. Germer is a former employee of Union Pacific Resources, a subsidiary of Union Pacific Railroad, which has been involved in the project since the early 1980s.

The Wishbone coal is expected to bring a slight premium over Australian coal. "Japanese power plant boilers are geared to use just this type of coal," Germer said. It is lower in sulfur and nitrogen than competitors' product. This makes it all the more attractive to environmentally conscious Japanese utilities, says Germer.

He tells of giant power plants surrounded by residential areas in Japan's cities. The plants are immaculately clean and feature elaborate landscaping so as to be pleasing to the eye and blend into the neighborhoods. Coal moves by trucks with hydraulically operated covers and in fully enclosed conveyor systems to eliminate dust problems.

IK has not given the final go-ahead for this project and may not for months. Feasibility studies are still ongoing. The company has yet to receive its first firm coal supply contract from utility customers but officials say there is strong interest. Some important factors remain up in the air that could tip the project over the edge of economic feasibility.

While this Alaska coal has the quality to demand a premium, it must still be priced competitively with coal from foreign producers. The base price of Australian coal is \$36.65 per metric ton f.o.b. (free on board ship). Feasibility studies have yielded a preliminary pricing number for Wishbone coal — but that's confidential.

A major consideration is in-state transportation fees. IK and the Alaska Railroad have yet to negotiate a haul rate. The railroad has submitted a proposal for haulage rates that may apply for an 80-car train as frequently as every other day.

Of the rail costs, Germer said preliminary figures quoted

by the Alaska Railroad could bump the project out of feasibility range. Unofficial sources say the railroad wanted haulage fees in the same range as Usibelli Mine pays for coal hauled 358 miles from Healy to Seward. By comparison, Wishbone Hill coal would travel some 156 miles by rail. "Hopefully, we will be able to negotiate a fee proportional to the distance our coal is hauled compared to Usibelli coal," Germer said. "Also, we will be shipping up to 300,000 more tons per year than is Usibelli. So maybe we could get a better rail rate on a per-ton basis. If the railroad stays with its initial quotes, the project will simply go away."

ARR vice president Richard Knapp said, "You can't make a straight line comparison on distance alone. There are considerable fixed costs in equipment, maintenance, crews, fuel, etc. that apply regardless of the distance factor. The variable costs are not that big a part of the equation."

Other transportation costs come with contract agreements and load-out fees with Suncel Alaska, Inc., owner of the Seward coal terminal.

As for the highway transportation of coal to a railhead, it would be most economical for IK to use trucks pulling tandem trailers. Without an upgrade of a portion of the Glenn Highway, this would be prohibited. Single-trailer trucks can be used on the existing road but that means more trucks, more trips and more cost tacked onto an already tightly structured project.

Other major costs are those associated with land reclamation, labor and environmental stipulations. Developers in Alaska have little control over such costs and they eat into any geographic edge Alaska enjoys over other international coal marketers to the Pacific Rim.

"Almost a third of our cost is in reclamation. Australia and other international competitors don't have this cost," Germer said.

Labor is no small consideration, especially if an employer is to pay more than lip service to local-hire commitments. The Wishbone project will employ about 180 full time workers. It will have an annual payroll exceeding \$10 million.

Heart of a historic coal district

by Mark Harris

Coal was mined from the Wishbone Hill area from 1916 to 1968. Coal from the old Jonesville Mine was used by the Alaska Railroad until equipment converted to diesel. Anchorage military bases used the coal until the early 1960s when conversion to newly discovered Cook Inlet gas took place.

As local markets dried up, there was no incentive to find new ones because it was believed all the surface mineable coal had been extracted. When the Evan Jones operation shut down in 1968, all the coal deposits that could be easily seen had been worked.

In 1982, Chuck Hawley began studying the geological material and determined

that more coal was waiting just under the gravel deposited by receding glaciers. The joint venture between Hawley Resource Group and Union Pacific Resources came about in 1983 to develop four lease blocks in the western portion of the district.

Union Pacific acquired three more coal leases in a 1985 state competitive lease sale and exploration continued. The next year, Union Pacific invited IK to joint venture in an exploration program in the eastern lease area. IK gain 50 percent equity interest in the exploration effort in early 1987. Another sliver of mineable coal was confirmed outside existing lease areas and the state of Alaska was asked to hold an-

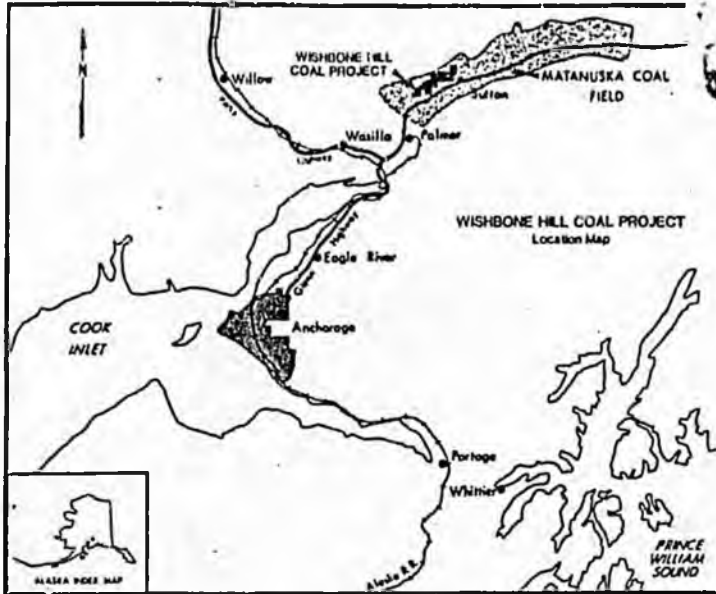
other lease sale. This took place in mid-year and the joint venture partnership gained an eighth lease block for a total of 2.5 sections of land.

About the same time, Union Pacific underwent a management change. A new CEO had plans to take the company in another direction. All the holdings were offered to Idemitsu Kosan. Exploration results were encouraging. A preliminary feasibility study indicated the economics looked good and a market study showed the hard, bituminous coal would sell in Japan. So IK gained 100 percent equity in the entire Wishbone Hill lease holdings.

"IK is serious about the Alaskan venture. Serious enough to spend \$4 million on exploration and pre-development work."



Jim Helling (center), manager of permitting for McKinley Mining Consultants, Inc. discusses planning for the Wishbone Hill project with McKinley's project manager, David Gemmer and Engineering Manager, Fred Mirkonjich. Mark Harris Photo.



The unitary tax is another factor. It is an accounting formula for determining how much of a corporation's income can be taxed by a state. In Alaska, it applies to the U.S. subsidiary of a foreign parent company. It allows state officials to see the books of Outside investors. This alone has prompted some Oriental firms to turn away from Alaska investments altogether. Gov. Steve Cowper has come out in favor of a "water's edge" method of applying the tax whereby U.S. subsidiaries of foreign companies are exempt.

Germer emphasizes that this project must stand on its own economic merit. "This is not political coal and this project is not a bone being thrown to the U.S. and Alaska for the sake of trade relations. Idemitsu Kosan is an independent company that, unlike a quasi-governmental entity, must live or die by the bottom line. At the same time, it is a major, broad based energy conglomerate with considerable resources behind this project. If this project falls through, it will be because of economic, not political reasons."

Mining Plan

IK will use a shovel-and-truck method rather than a massive dragline such as the Usibelli operation uses. The Wishbone area features numerous thin layers of coal that demand equipment flexible enough to get at all the reserve. IK may use three large hydraulic excavators for overburden removal and coal loading. End-dump trucks would

haul the coal to a nearby wash plant, which essentially removes a layer of shale.

The area presents few environmental problems, according to Jim Helling, McKinley's environmental and permitting manager. The mine site is on high ground and features a tight bedrock that precludes much ground water seepage into the pits. There are essentially no wetlands and surface water runoff can be easily handled, Helling said. Also, dust and emissions from any handling, testing and washing operations will be well within established standards.

Transportation Plan

From a washing plant at the mine site, highway-legal tandem-trailer trucks would travel a two-mile access road to the Glenn Highway then some 12 miles to a storage-loading area west of Palmer. IK is negotiating with ALAGCO for a holding area in that company's gravel pit just off the Glenn Highway. The coal would be stored below ground level, out of sight and out of the wind. Coal would be conveyed into rail cars. It looks like two full trains per week will be needed, Germer said.

From Seward, coal would be loaded onto 60,000 to 70,000 dwt ships for a 10-day trip to Okido or Tokyo terminals. Shipping time from Australia is 14 days. IK is now considering the construction of a new ship for the Alaska coal trade.

Not A New Project

It all started in 1982 when management at Union Pacific

Railroad was hot to cash in on exporting energy resources to the Pacific Rim. A subsidiary, Union Pacific Resources, saw an opportunity to market coal to Japan by 1991, when it was determined "a window of opportunity" would open up.

A joint venture was formed with Chuck Hawley, well known for his years of minerals expertise in Alaska. It was helpful that Hawley Resource Group held options on four state coal leases in the Wishbone Hill area near Sutton.

After a year of exploratory drilling and testing, an 11-million-ton surface mineable coal deposit was announced. That grew by 25 percent after further exploration in 1984. The group gained three more state leases that year and talk of a mine-mouth power plant started. The idea was shelved as Alaska's economy went on the skids in 1985.

Mat-Su Borough Likes It

The Matanuska-Susitna Borough is doing a social impact study on the project. Officials expect to see some spin-off economic benefits in addition to more than 150 jobs for borough residents. There would be economic benefits through the sale of fuel, tires, parts, gravel, explosives and food supplies, and all manner of services.

Some consideration has been given to writing job descriptions and required qualifications a year in advance of mine start up. This would allow time for job applicants to get training in the various fields. Truck drivers, heavy equipment operators and mechanics

will be in high demand. Public sentiment toward the project is generally positive. In a region plagued with double digit unemployment rates for most of the 1980s, the prospect for up to 180 jobs is welcome news.

Mat-Su officials would like to see a million tons of coal per year shipped out of a borough owned port proposed for Point MacKenzie. That would require about a 18-mile rail spur and a coal loading facility at the port.

The Alaska Railroad would be glad to construct a rail line to the port if somebody else comes up with the money. That isn't likely to be IK. Financing railroad construction at today's cost of about \$1 million a mile isn't economic for a \$50 million to \$60 million mining operation with a 12-14-year lifespan.

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The Glenn Highway upgrade is not part of the Department of Transportation's current six-year plan. Funding this project would likely delay or bump another off the books. A preliminary DOT report puts the highway upgrade at \$9.075 million. Idemitsu Kosan is being asked to fund \$3.4 million of that.

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Some federal money would come by convincing the Federal Highway Administration to extend a Glenn Highway project already slated for 1991. DOT officials say the agency seems receptive to the idea. A request for \$1 million in state general funds is pending as well.

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: SCR 6
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: 2-Feb-89 Agency Affected: Natural Resources
 Title: Supporting the development of BRU: Mining Management
coal mining at Wishbone Hill.
 Sponsor: Uehling,Szymanski,Kertulla,Jones,Halford,Kelly,Sturgulewski,Fiaks
 Requestor: Senate Resources

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0.0					

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Larry Ostrovsky Phone: 465-2400
 Division: Commissioners Office Date: 2-Feb-89
 Approved by Commissioner: Lennie Gorsuch Date: 2-Feb-89
 Agency: Department of Natural Resources

Distribution (by preparer) :
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

BRIEFING PAPER

WISHBONE HILL COAL DEVELOPMENT/
GLENN HIGHWAY IMPROVEMENTS
MILEPOST 35-56

January 31, 1989

A reconnaissance study which evaluated the Glenn Highway improvements related to the development of the Wishbone Hill Coal Mine was forwarded to the mine developers on December 21. A meeting was held on January 12 between representatives of McKinley Mining Consultants, Idemitsu Kosan Co. Ltd., Alaska Industrial Development and Export Authority, and the department to discuss these improvements and the mine development. This meeting was very positive and a close working relationship is anticipated between the mine developers and the department. At the present time, this proposed coal mine development appears to be viable and proceeding in a manner which indicates the project will begin operation in late 1991 as proposed by the developers.

A meeting between the department and the FHWA was held on January 23 and 24 to review and conduct a field survey of the Glenn Highway improvements associated with this coal mine. The cost estimate for the Glenn Highway safety and capacity improvements desirable to accommodate the coal haul operation associated with this mine development is estimated to range between \$9-10 million. If a decision is made to proceed with the development of the Glenn Highway improvements on a schedule corresponding to the extent possible with the beginning of coal haul operations in mid to late 1991, the highway improvement construction phase funding should be programmed in FFY'90 or FFY'91.

Other projects which may need to be delayed to accommodate this funding change should be identified, reviewed and tentatively approved prior to meeting with the mine developers to conceptually agree on a course of action for financing and scheduling the highway improvements. The next meeting with the mine developers on this project is proposed for the middle of February to achieve conceptual agreement on financing and scheduling road improvements. We expect to know by this meeting what aspects of the Glenn Highway improvements associated with this proposed coal haul activity the FHWA is willing to participate in financing.

By late February, Central Region will have recommendations developed regarding the budget adjustments necessary to accommodate the inclusion of the Glenn Highway improvements associated with this project. Prior to formalizing any budget modifications to accommodate these highway improvements, an agreement regarding cost sharing needs to be approved by the department and the mine developers. Once agreement has been reached between the department and the mine developers and Central Region's recommended budget modifications have been reviewed and approved by the Commissioner, the necessary CIP budget adjustment documents will be forwarded for inclusion in the Governor's budget. This is expected to be accomplished by early March.

The following schedule summarizes the actions anticipated in the immediate future to address the Glenn Highway improvements:

Briefing Paper
Page 2

January 23-24	Meeting with FHWA to review the proposed highway improvements.
Early February	Central Region develops draft budget modifications for the Commissioner's review to accommodate the highway improvements.
Mid-February	Meet with mine developers to achieve conceptual agreement on financing highway improvements.
Early March	Formal agreement on highway improvement financing developed and approved by the department and the mine developers.
Early March	Budget modifications forwarded to the Governor's Office.

RM:kc

Japanese electricity from an Alaskan wishbone

by Mark Harris

Why would Japan's largest independent oil company spend up to \$70 million to open a small coal mine 50 miles east of Anchorage? There are a lot of reasons that make perfectly good sense to the Japanese. The nice part is they make good economic sense for Alaska too.

Idemitsu Kosan (IK for short) wants to mine about one million tons a year of bituminous coal from the hills above Sutton. This integrated energy conglomerate owns several oil refineries and is active in coal and other mining developments worldwide. It supplies coal, gas and oil to many of Japan's electric utilities.

IK is serious about this Alaska venture. Serious enough to buy out the lease interests of two American coal developers, to form a U.S. subsidiary called Idemitsu Alaska, Inc., to hire a project management firm and spend \$4 million on exploration and pre-development work.

During U.S.-Japan trade negotiations in 1988, Japanese utilities came under pressure to buy U.S. coal. This Alaska project, while small by international standards, is seen as a good business deal and good for U.S.-Japan trade relations.

In 1987 IK gained 100 percent equity interest in what has become known as the Wishbone Hill Coal Project. The firm has been increasing its marketing efforts ever since. Existing electrical generating plants and those under construction in Japan are designed to use bituminous coal. So a long-term market is not a problem. Breaking into that market with Alaska coal is another matter.

Australia supplies 70 percent of Japan's coal along with South Africa and Columbia. Japan wants to diversify its sources. The Alaska project would come on line just as new coal-fired plants are ready for service in 1991.

Coal shipped from the Suncel Coal Terminal in Seward would have about four days fewer transport time than Australian coal. Seward is about 3,000 miles from Japan's main industrial ports — about 1,000 miles closer than Australia shipping points. Since shipping costs account for about 15 percent of coal costs, this presents a market advantage.

The advantage holds up when comparing Wishbone coal to bituminous coal from the western U.S. as well. Rail

costs to tidewater eat up what little distance advantage west coast terminals have over Alaska.

By international and Lower 48 standards this is a small project. Two mines in Wyoming alone produce 33 million



"If the railroad stays with its initial quotes, the project will simply go away," says David Germer. Mark Harris Photo.

tons a year. However, put in a more relevant context, Wishbone is quite large. Idemitsu currently imports about 6 million tons of coal annually for its own refineries and for power utility customers. At 1 million tons per year, the Wishbone project would hold a considerable share of new market

sources.

Wishbone Hill is noted for hard, dry bituminous coal. It burns at about 11,500 Btu and holds 6-9 percent moisture, according to David Germer, project manager for IK's Alaska engineering representative McKinley Mining Consultants, Inc. Germer is a former employee of Union Pacific Resources, a subsidiary of Union Pacific Railroad, which has been involved in the project since the early 1980s.

The Wishbone coal is expected to bring a slight premium over Australian coal. "Japanese power plant boilers are geared to use just this type of coal," Germer said. It is lower in sulfur and nitrogen than competitors' product. This makes it all the more attractive to environmentally conscious Japanese utilities, says Germer.

He tells of giant power plants surrounded by residential areas in Japan's cities. The plants are immaculately clean and feature elaborate landscaping so as to be pleasing to the eye and blend into the neighborhoods. Coal moves by trucks with hydraulically operated covers and in fully enclosed conveyor systems to eliminate dust problems.

IK has not given the final go-ahead for this project and may not for months. Feasibility studies are still ongoing. The company has yet to receive its first firm coal supply contract from utility customers but officials say there is strong interest. Some important factors remain up in the air that could tip the project over the edge of economic feasibility.

While this Alaska coal has the quality to demand a premium, it must still be priced competitively with coal from foreign producers. The base price of Australian coal is \$36.65 per metric ton f.o.b. (free on board ship). Feasibility studies have yielded a preliminary pricing number for Wishbone coal — but that's confidential.

A major consideration is in-state transportation fees. IK and the Alaska Railroad have yet to negotiate a haul rate. The railroad has submitted a proposal for haulage rates that may apply for an 80-car train as frequently as every other day.

Of the rail costs, Germer said preliminary figures quoted

by the Alaska Railroad could bump the project out of feasibility range. Unofficial sources say the railroad wanted haulage fees in the same range as Usibelli Mine pays for coal hauled 358 miles from Healy to Seward. By comparison, Wishbone Hill coal would travel some 156 miles by rail. "Hopefully, we will be able to negotiate a fee proportional to the distance our coal is hauled compared to Usibelli coal," Germer said. "Also, we will be shipping up to 300,000 more tons per year than is Usibelli. So maybe we could get a better rail rate on a per-ton basis. If the railroad stays with its initial quotes, the project will simply go away."

ARR vice president Richard Knapp said, "You can't make a straight line comparison on distance alone. There are considerable fixed costs in equipment, maintenance, crews, fuel, etc. that apply regardless of the distance factor. The variable costs are not that big a part of the equation."

Other transportation costs come with contract agreements and load-out fees with Suncel Alaska, Inc., owner of the Seward coal terminal.

As for the highway transportation of coal to a railhead, it would be most economical for IK to use trucks pulling tandem trailers. Without an upgrade of a portion of the Glenn Highway, this would be prohibited. Single-trailer trucks can be used on the existing road but that means more trucks, more trips and more cost tacked onto an already tightly structured project.

Other major costs are those associated with land reclamation, labor and environmental stipulations. Developers in Alaska have little control over such costs and they eat into any geographic edge Alaska enjoys over other international coal marketers to the Pacific Rim.

"Almost a third of our cost is in reclamation. Australia and other international competitors don't have this cost," Germer said.

Labor is no small consideration, especially if an employer is to pay more than lip service to local-hire commitments. The Wishbone project will employ about 180 full time workers. It will have an annual payroll exceeding \$10 million.

Heart of a historic coal district

by Mark Harris

Coal was mined from the Wishbone Hill area from 1916 to 1962. Coal from the old Jonesville Mine was used by the Alaska Railroad until equipment converted to diesel. Anchorage military bases used the coal until the early 1960s when conversion to newly discovered Cook Inlet gas took place.

As local markets dried up, there was no incentive to find new ones because it was believed all the surface mineable coal had been extracted. When the Evan Jones operation shut down in 1968, all the coal deposits that could be easily seen had been worked.

In 1982, Chuck Hawley began studying the geological material and determined

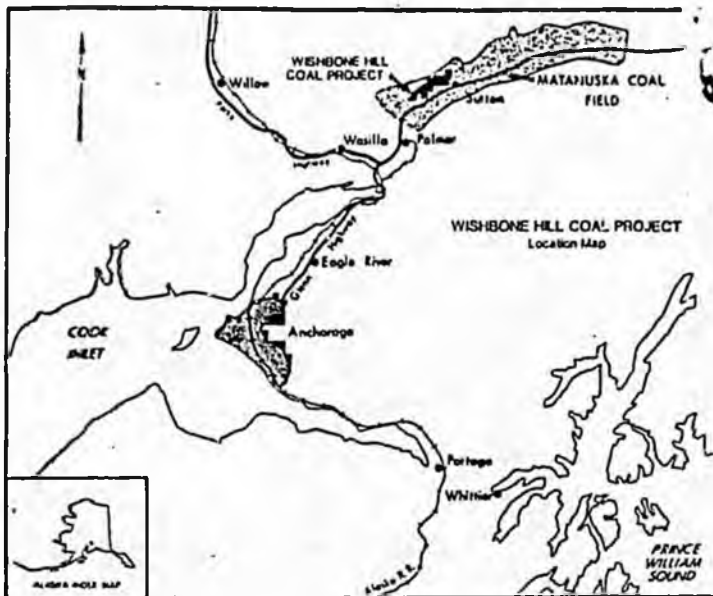
that more coal was waiting just under the gravel deposited by receding glaciers. The joint venture between Hawley Resource Group and Union Pacific Resources came about in 1983 to develop four lease blocks in the western portion of the district.

Union Pacific acquired three more coal leases in a 1985 state competitive lease sale and exploration continued. The next year, Union Pacific invited IK to joint venture in an exploration program in the eastern lease area. IK gain 50 percent equity interest in the exploration effort in early 1987. Another sliver of mineable coal was confirmed outside existing lease areas and the state of Alaska was asked to hold an-

other lease sale. This took place in mid-year and the joint venture partnership gained an eighth lease block for a total of 2.5 sections of land.

About the same time, Union Pacific underwent a management change. A new CEO had plans to take the company in another direction. All the holdings were offered to Idemitsu Kosan. Exploration results were encouraging. A preliminary feasibility study indicated the economics looked good and a market study showed the hard, bituminous coal would sell in Japan. So IK gained 100 percent equity in the entire Wishbone Hill lease holdings.

"IK is serious about the Alaskan venture. Serious enough to spend \$4 million on exploration and pre-development work."



Jim Helling (center), manager of permitting for McKinley Mining Consultants, Inc. discusses planning for the Wishbone Hill project with McKinley's project manager, David Gemmer and Engineering Manager, Fred Mrkonjich. Mark Harris Photo.

The unitary tax is another factor. It is an accounting formula for determining how much of a corporation's income can be taxed by a state. In Alaska, it applies to the U.S. subsidiary of a foreign parent company. It allows state officials to see the books of Outside investors. This alone has prompted some Oriental firms to turn away from Alaska investments altogether. Gov. Steve Cowper has come out in favor of a "water's edge" method of applying the tax whereby U.S. subsidiaries of foreign companies are exempt.

Gemmer emphasizes that this project must stand on its own economic merit. "This is not political coal and this project is not a bone being thrown to the U.S. and Alaska for the sake of trade relations. Idemitsu Kosan is an independent company that, unlike a quasi-governmental entity, must live or die by the bottom line. At the same time, it is a major, broad based energy conglomerate with considerable resources behind this project. If this project falls through, it will be because of economic, not political reasons."

Mining Plan

IK will use a shovel-and-truck method rather than a massive dragline such as the Usibelli operation uses. The Wishbone area features numerous thin layers of coal that demand equipment flexible enough to get at all the reserve. IK may use three large hydraulic excavators for overburden removal and coal loading. End-dump trucks would

haul the coal to a nearby wash plant, which essentially removes a layer of shale.

The area presents few environmental problems, according to Jim Helling, McKinley's environmental and permitting manager. The mine site is on high ground and features a tight bedrock that precludes much ground water seepage into the pits. There are essentially no wetlands and surface water runoff can be easily handled, Helling said. Also, dust and emissions from any handling, testing and washing operations will be well within established standards.

Transportation Plan

From a washing plant at the mine site, highway-legal tandem-trailer trucks would travel a two-mile access road to the Glenn Highway then some 12 miles to a storage-loading area west of Palmer. IK is negotiating with ALAGCO for a holding area in that company's gravel pit just off the Glenn Highway. The coal would be stored below ground level, out of sight and out of the wind. Coal would be conveyed into rail cars. It looks like two full trains per week will be needed, Gemmer said.

From Seward, coal would be loaded onto 60,000 to 70,000 dwt ships for a 10-day trip to Okido or Tokyo terminals. Shipping time from Australia is 14 days. IK is now considering the construction of a new ship for the Alaska coal trade.

Not A New Project

It all started in 1982 when management at Union Pacific

Railroad was hot to cash in on exporting energy resources to the Pacific Rim. A subsidiary, Union Pacific Resources, saw an opportunity to market coal to Japan by 1991, when it was determined "a window of opportunity" would open up.

A joint venture was formed with Chuck Hawley, well known for his years of minerals expertise in Alaska. It was helpful that Hawley Resource Group held options on four state coal leases in the Wishbone Hill area near Sutton.

After a year of exploratory drilling and testing, an 11-million-ton surface mineable coal deposit was announced. That grew by 25 percent after further exploration in 1984. The group gained three more state leases that year and talk of a mine-mouth power plant started. The idea was shelved as Alaska's economy went on the skids in 1985.

Mat-Su Borough Likes It

The Matanuska-Susitna Borough is doing a social impact study on the project. Officials expect to see some spin-off economic benefits in addition to more than 150 jobs for borough residents. There would be economic benefits through the sale of fuel, tires, parts, gravel, explosives and food supplies, and all manner of services.

Some consideration has been given to writing job descriptions and required qualifications a year in advance of mine start up. This would allow time for job applicants to get training in the various fields. Truck drivers, heavy equipment operators and mechanics

will be in high demand. Public sentiment toward the project is generally positive. In a region plagued with double digit unemployment rates for most of the 1980s, the prospect for up to 180 jobs is welcome news.

Mat-Su officials would like to see a million tons of coal per year shipped out of a borough owned port proposed for Point MacKenzie. That would require about a 18-mile rail spur and a coal loading facility at the port.

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MATANUSKA-SUSITNA BOROUGH
RESOLUTION SERIAL NO. 88- 199

A RESOLUTION OF THE ASSEMBLY OF THE MATANUSKA-SUSITNA BOROUGH
SUPPORTING THE MINING OF COAL FROM THE WISHBONE HILL
FIELD.

WHEREAS, Idemitsu Kosan Corporation of Japan proposes to develop and export coal from the Wishbone Hill Field in the Buffalo Mine to Eska area of the Matanuska-Susitna Borough; and

WHEREAS, the Borough is generally supportive of the mining industry; and

WHEREAS, this endeavor would broaden and diversify the Borough economy in a basic sector creating an estimated 180 basic jobs and an even larger number of jobs in the secondary sector; and

WHEREAS, the Borough currently suffers one of the highest unemployment rates in the State; and

WHEREAS, coal mining is a traditional industry in the Borough and qualified people are available locally to fill most, if not all, positions that would be needed to conduct this mining enterprise;

NOW THEREFORE, BE IT RESOLVED, that the Assembly of the Matanuska-Susitna Borough strongly supports the efforts of Idemitsu Kosan Corporation to develop the Wishbone Hill Coal Field; and

STATE ECONOMIC RECOVERY COMMITTEE

Project Review

Project Title: Wishbone Hill Coal Project - Road Upgrade

DESCRIPTION: The Matanuska-Susitna Borough is seeking funds for road improvements along 13 miles of the Glenn Highway north of Palmer. The road upgrade will help facilitate the development of the Wishbone Hill Coal Field. Idimitsu-Kosan, Inc., an international development corporation, has, since 1983, conducted exploration and feasibility studies and applied for mining permits for their proposed coal mine. The highway to the site entry road will be widened, and passing lanes added to ensure the efficiency of the increased heavy vehicle traffic that will be required in support of the development.

GOVERNMENT INFRASTRUCTURE INVESTMENT: The construction costs are estimated between \$1,500,000 and \$5,820,000. The Mat-Su Borough is willing to commit \$500,000 towards the costs, with the remainder of the funds sought from the State of Alaska through the Department of Transportation.

PRIVATE SECTOR INVESTMENT: Idimitsu-Kosan has already spent nearly \$3,000,000 in the preliminary stages of this project, and is prepared to commit another \$40-50,000,000 to develop a fully operational facility. The project is scheduled to commence production activity in mid 1991.

EMPLOYMENT: This venture will create an estimated 180 long term jobs, most of which can be accommodated by the Southcentral work force. This development should positively impact regional support industries, particularly the trucking, fuel and machinery supply sectors.

COMMITTEE ANALYSIS: The Committee felt that this project has the potential to be a major economic boost to the economically ailing Mat-Su Borough. The Borough government is aggressively pursuing viable public/private partnership ventures and it is paying dividends.

Other coal mining concerns within the Borough should not be negatively impacted as this proposed mine will be extracting a different quality of coal with different markets also identified.

The developer will bear all site operating, maintenance and reclamation costs, but the highway arterial servicing the site will remain a government maintenance cost. Such costs are more than accommodated by the expanded state and local tax benefits created by the Wishbone Hill Mining activity.

The Committee endorses the State infrastructure funding requested by the Mat-Su Borough as part of a multi-phase effort to revitalize and stabilize our State's economy.