

**02/03/15
OVERVIEW:
ALASKA RAILROAD
& POINT
MACKENZIE
RAILROAD
EXTENSION
UPDATE**

<TARGET><BILL></BILL><SUBJECT>02-03-15 OVERVIEW ALASKA
RAILROAD and POINT MACKENZIE RAILROAD EXTENSION
UPDATE</SUBJECT><COMM>HTRA29</COMM></TARGET>

Alaska Railroad Update

Presentation to
Joint House & Senate Transportation Committee
February 3, 2015

Bill O'Leary
President & CEO



AlaskaRailroad.com



Alaska Railroad Quick Facts

Organization (following State purchase)

- Independent corporation owned by State
- Managed by a seven-member board of directors appointed by Governor
- Mandated to be self-sustaining, responsible for financial and legal obligations

Operating Data

- 656 Total miles of track
- 1,381 Freight cars (owned & leased)
- 45 Passenger cars
- 51 Locomotives

Operating Statistics (Jan - Dec 2014)

- 468,661 passengers
- 4.92 million tons of freight

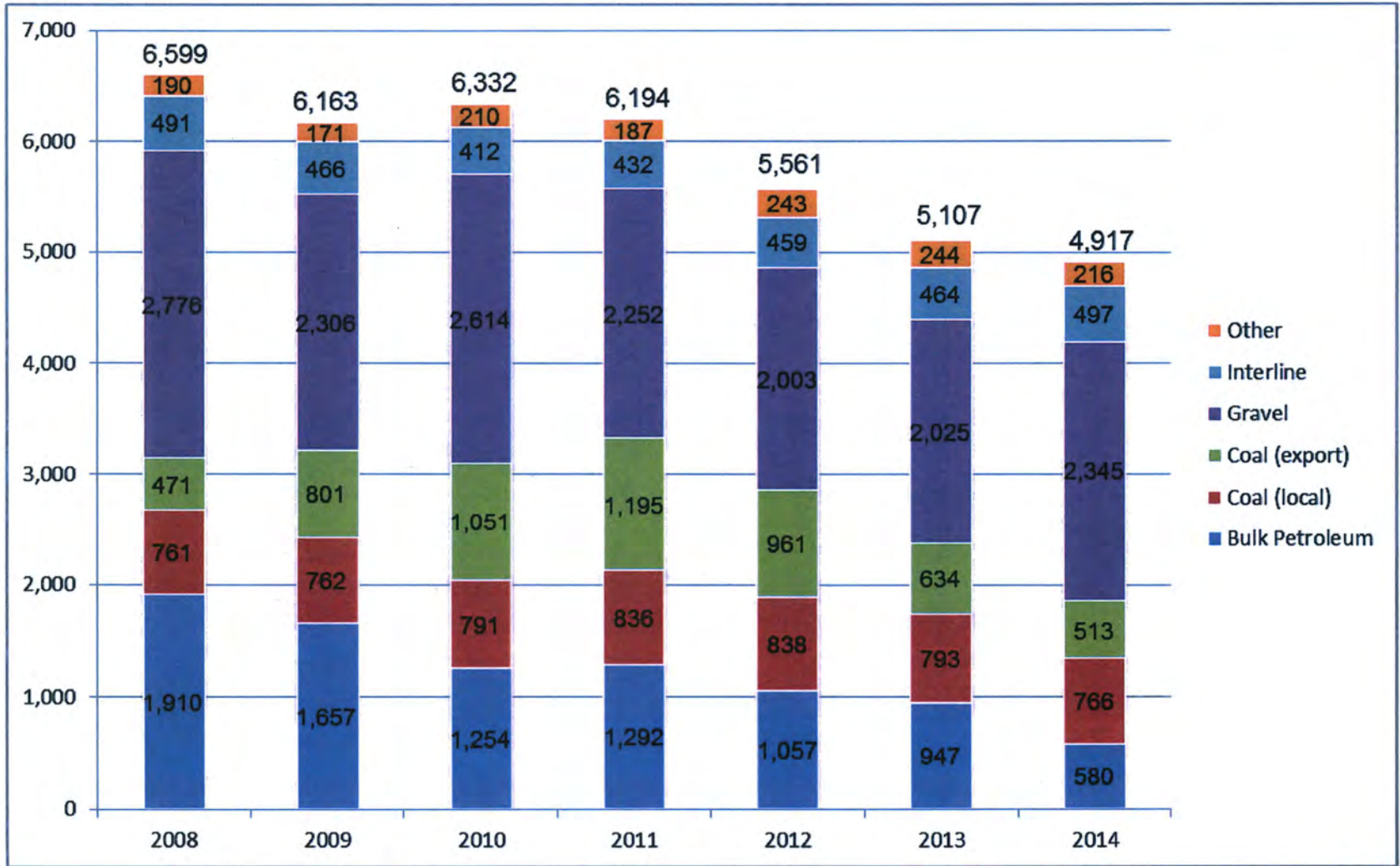
Employees (January 2014)

- 575 year-round employees
- 425 members of 5 unions

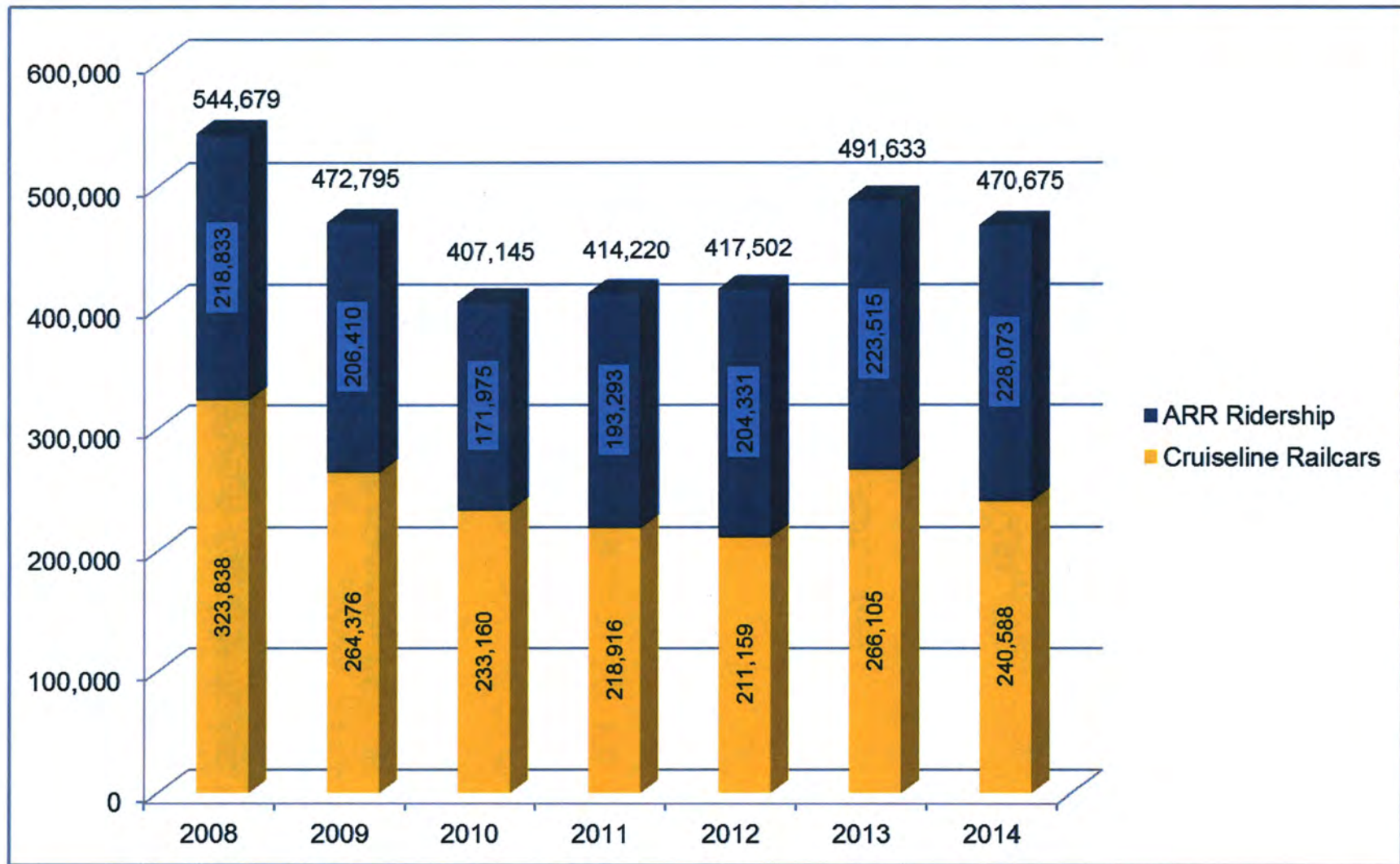


ARRC Freight

(in thousand tons)



ARRC Passenger Service



Alaska Railroad Real Estate

- Property Development
- Leases and Permits
- Dockage and Wharfage
- Facilities Maintenance and Management
- Revenue from Real Estate activities allow ARRC to weather financial cycles.
 - 2014: 75% of corporate net income derived from real estate. (Unaudited)



Top: Ship Creek basin includes highly valuable leasable land. Bottom: Seward freight dock viewed from waterside catwalk.

FTA Formula Funds

- Provided to ARRC for our year-round regularly-scheduled passenger service.
- Significant reduction for 2013 and moving forward (MAP-21)
- Cut was only to Alaska Railroad and did not reduce federal budget.
- Part of the reason behind the cut was ill will towards Senator Stevens' legacy.
- Will be up again in 2015



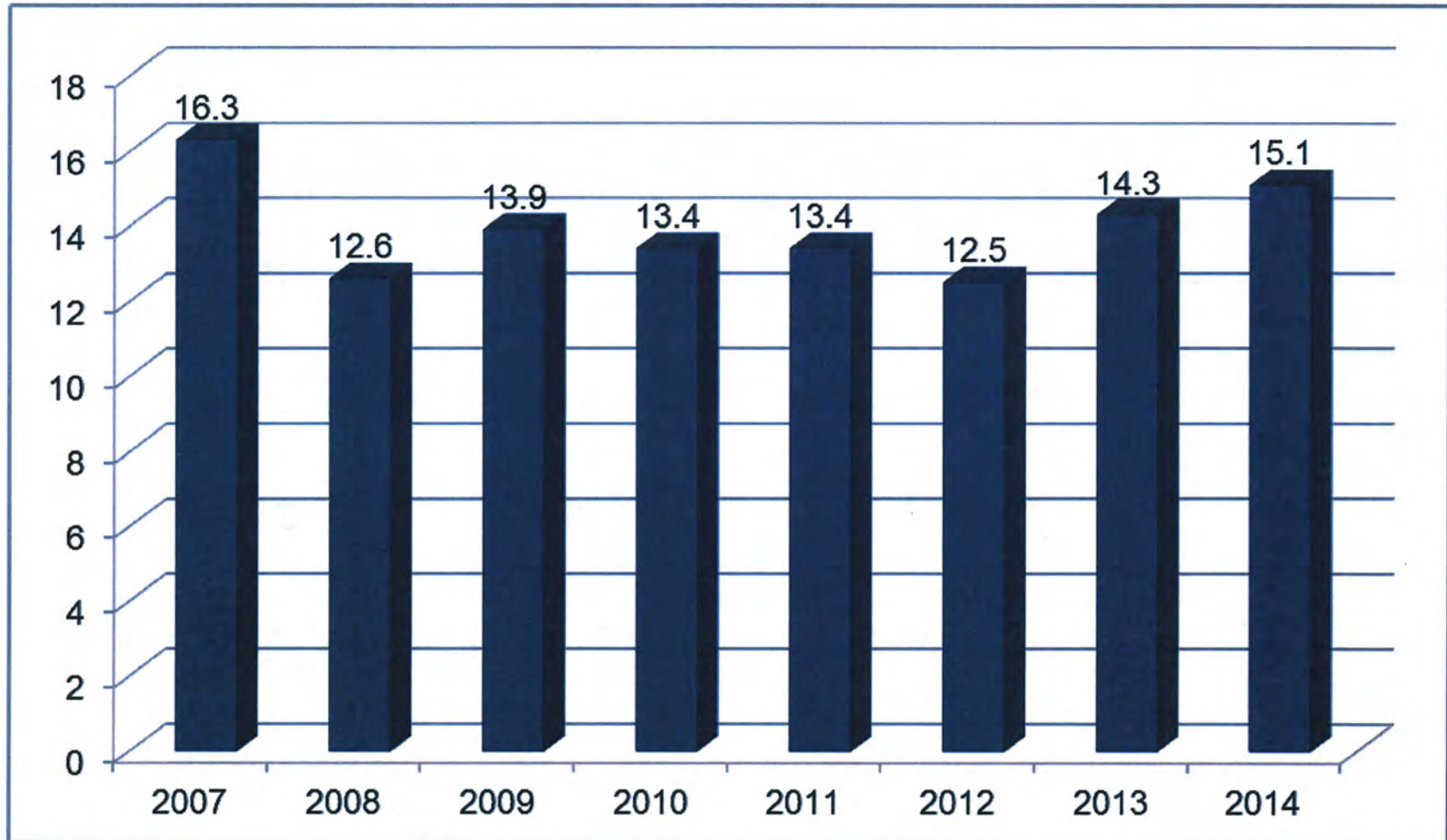
Handling Downturns

- Started in 2008
- 300 positions cut in 3 separate downsizings
- Streamline Operations
- Still experiencing downturns in two largest freight lines
- Ensure the Railroad doesn't look different from the outside
- Seek out new lines of business



ARRC Net Income

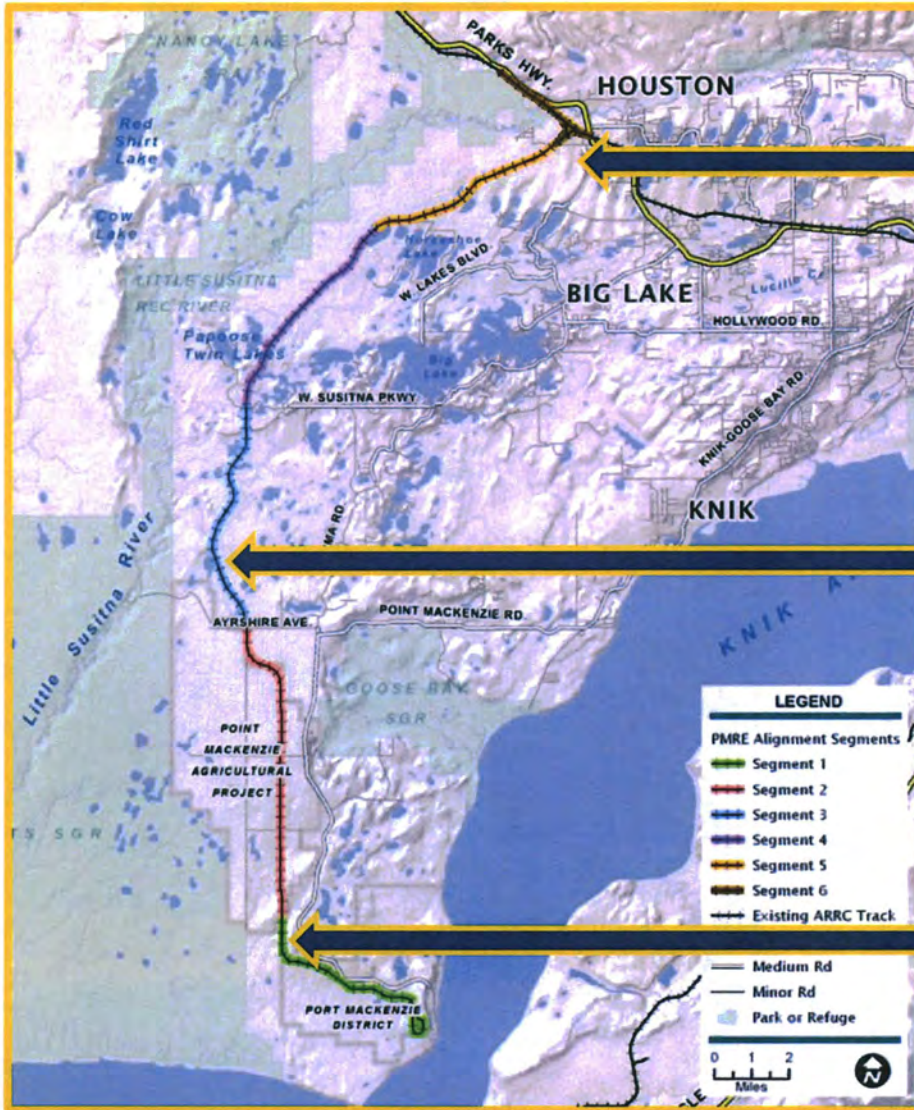
(in \$ millions)



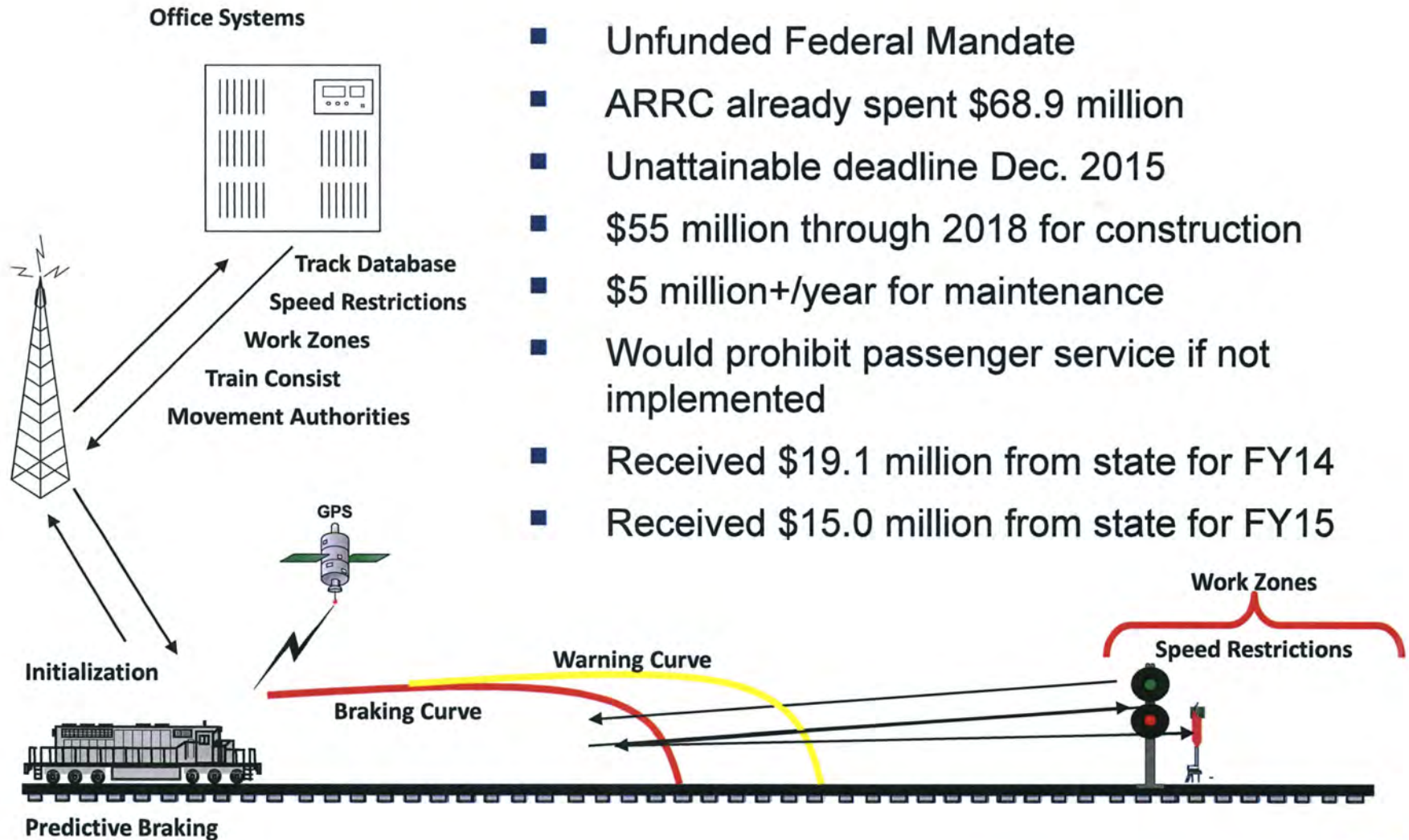
Northern Rail Extension



Port MacKenzie Rail Extension



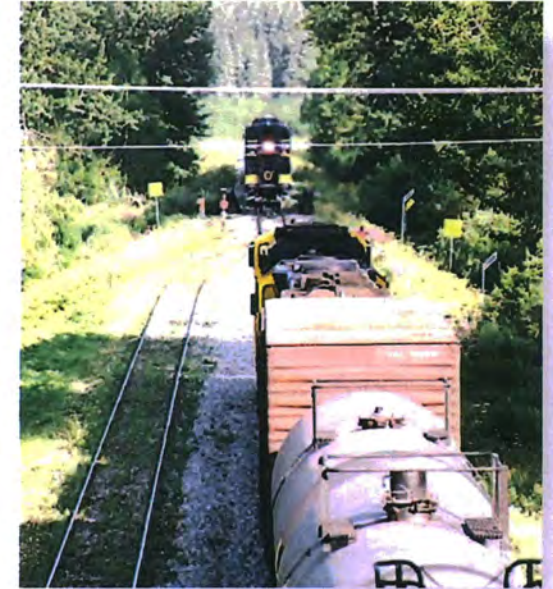
Positive Train Control



What is PTC?

PTC is a safety overlay system that reduces human factor errors and must reliably and functionally prevent:

- Train-to-train collisions by enforcing authority limits;
- Overspeed derailments;
- Trains entering maintenance of way work zone limits; and
- Train movement through a main line switch in the improper position.



No Way Out

- \$12 billion to \$15 billion industry cost
 - \$160 million for ARRC
- Congressional Delegation
- Alaska Attorney General
- NTSB Most Wanted List – 2012 & 2014
- Association of American Railroads



What if ARRC Does Not Comply?

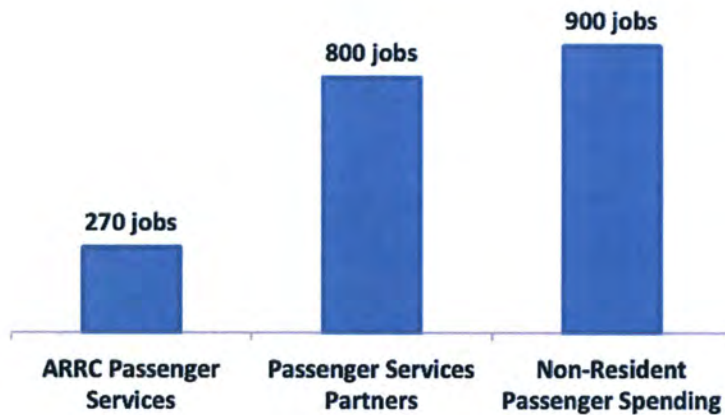
Federal law provides penalties for non-compliance:

- FRA authority to fine 61 different PTC-related violations
- Maximum FRA fine for failure to complete PTC installation by December 31, 2015, is \$16,000 per violation and \$25,000 for each “willful” violation. A separate violation is issued for each day the violation occurs. The FRA can fine up to \$100,000 per day as it deems warranted.
- FRA rail safety law compliance pertains to “persons” so both the corporation and individuals are on the hook.
- Prohibit passenger service



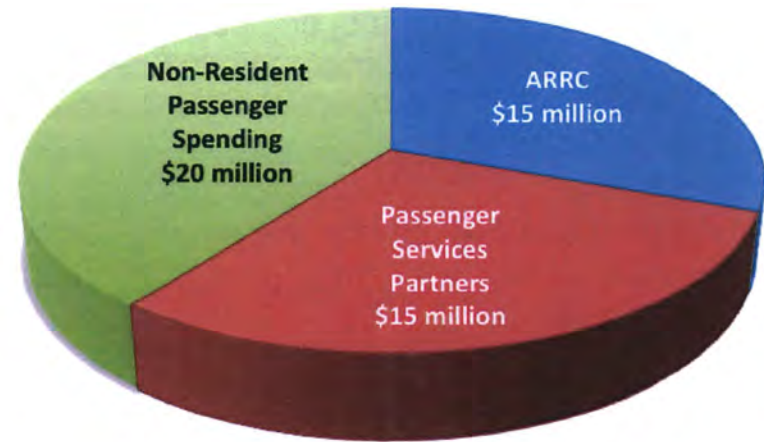
Loss of Passenger Service

A total of just under 2,000 jobs are connected in some way to Alaska Railroad's passenger services.



ARRC Passenger Services-Related Employment, 2012

Approximately \$50 million in labor income is related to Alaska Railroad's passenger services.



ARRC Passenger Services-Related Labor Income, 2012



Loss of Passenger Service

Discontinuation of Alaska Railroad's passenger services would have significant impacts not only on the Railroad, but on the Railbelt's visitor economy and infrastructure.

- Loss of all ARRC jobs and wages associated with providing passenger services.
- Loss of all ARRC passenger-related income, jobs, and wages in 275 businesses that provide goods and services to ARRC in support of its passenger operations.
- Unknown economic effects on ARRC's visitor industry partners, who would be challenged to replace the popular, scenic, high-amenity-value rail service with some other form of transportation with equal customer appeal.
- Loss of federal funding opportunities available to public transportation providers.
- Unknown, but certain redistribution of (and potential loss of) visitor spending in the region, as railroad passengers seek to replace their rail experience.
- Estimated 3,700 additional motorcoach trips along the Parks and Seward Highways and other areas served by the Railroad, with traffic congestion and highway maintenance impacts. There could also be increases in RV, van, rental vehicle, personal vehicle, and/or airplane usage as a large number of visitors will be forced to find alternative transportation methods.

PREPARED BY
 **McDowell**
GROUP



Topline Opportunities



- Intermodal, Interstate & International Shipping
 - Supplies for exploration, drilling and development
 - OCS, ANWR, NPR-A Pipelines
 - Natural Gas Pipeline
- Pipeline on Rails
 - LNG
 - Crude Oil
 - Refined Oil
- Seward Master Plan
- Interline Growth
- Corridors to resources
 - Include rail, road, utilities, pipelines, etc.
 - Can build road to railroad geometry

Barge Service

Lower 48 and Canada to Alaska



- Seattle or Prince Rupert to Whittier
- Safe, Reliable, Affordable Service
- Increased demand in past 24 months driven by increased oil development on North Slope
- Longest Rail-Haul in North America
 - Alaska Railroad from Seattle to Fairbanks - 1815 Miles
 - Interline service from Panama City, Florida to Fairbanks - 4842 Miles

Pipeline on Rails

Moving LNG to Fairbanks

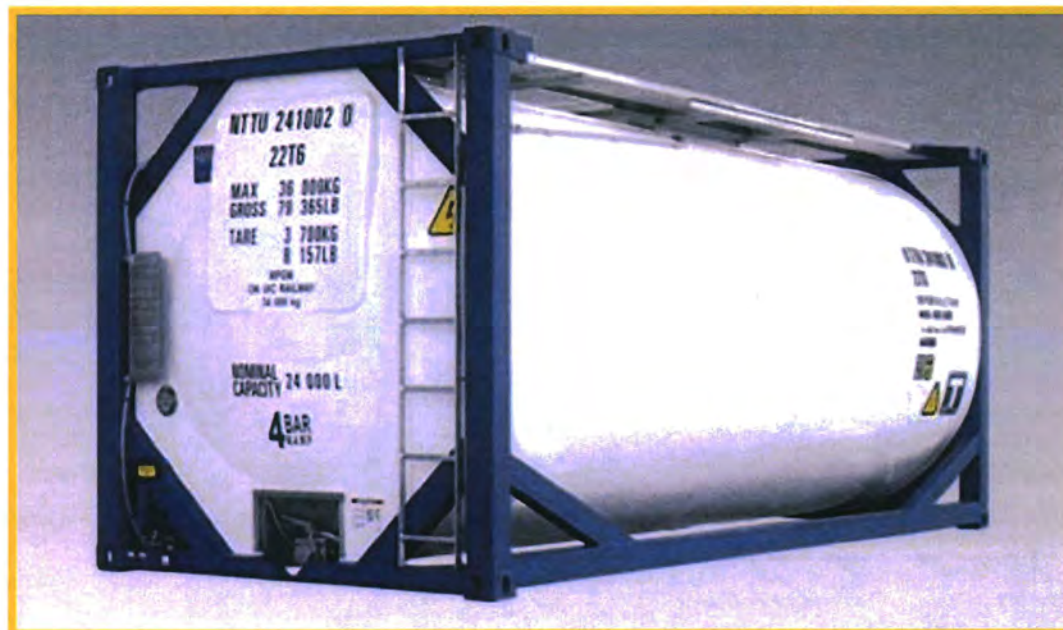
- ARRC could be an interim energy solution
- Experience handling bulk commodities
- Already provide-year round freight service Cook Inlet to Fairbanks
- Could have equipment in 12-18 months



Pipeline on Rails

Equipment Options – ISO Tanks

- 39,958 lbs. payload
- 11,000 gallons
- Can be double stacked from Port Mackenzie
- Cost of ISO tank container is \$150,000
- 18 months manufacturing time

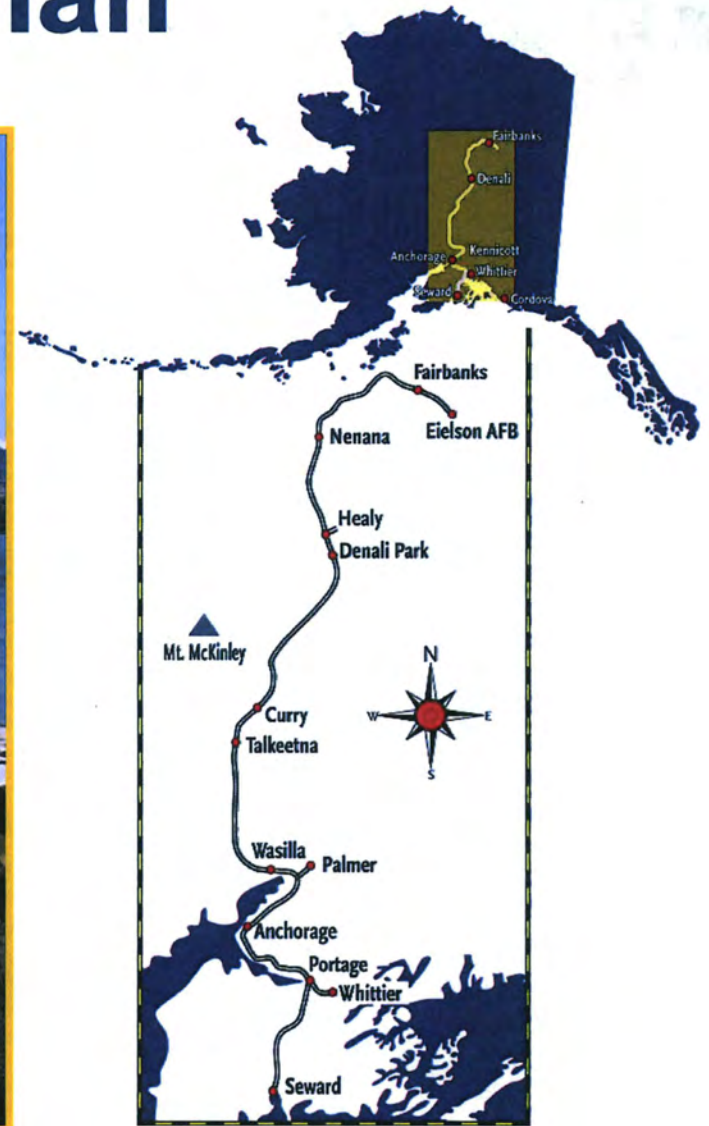


Pipeline on Rails Summary

- Alaska Railroad has existing infrastructure.
- Extensive capacity to move bulk commodities
- Cost effective option to truck shipments
- Safe off highway transportation network
- ISO's offer effective asset utilization and resale option
- Available Alaska Railroad real estate
- Near term logistics solution



State Rail Plan



The Future

- Despite challenges, the Railroad will continue moving forward
 - Critical piece of transportation infrastructure in a state woefully lacking in such infrastructure
- Almost all large development projects in Alaska will need the Railroad
 - Gasline variations
 - Mining
- Alaska needs a strong Alaska Railroad
 - Externally sound
 - Internally sound





PORT MACKENZIE
RAIL EXTENSION



POISED FOR GROWTH

Port Mac & working ship in ice



Only port in Alaska with **large** (14 sq. mile) staging, storage and industrial area





Barge dock staging area



Upland lease lots



For large projects

Activity at the Port

16 miles of pipe to be off-loaded

Bulk Resources



WesPac Midstream



WesPac Midstream wants to establish an LGN alternative for the Interior markets

WesPac highlights Rail at Port MacKenzie as part of their project overview

- develop \$600 million in infrastructure at Port MacKenzie.
- include an LNG facility for 250,000 GPD liquefaction and storage
- build an 11 Megawatt power plant
- build gas pipeline connection to ENSTAR pipe
- build rail loop siding and laydown area

The Borough is in negotiations with WesPac.

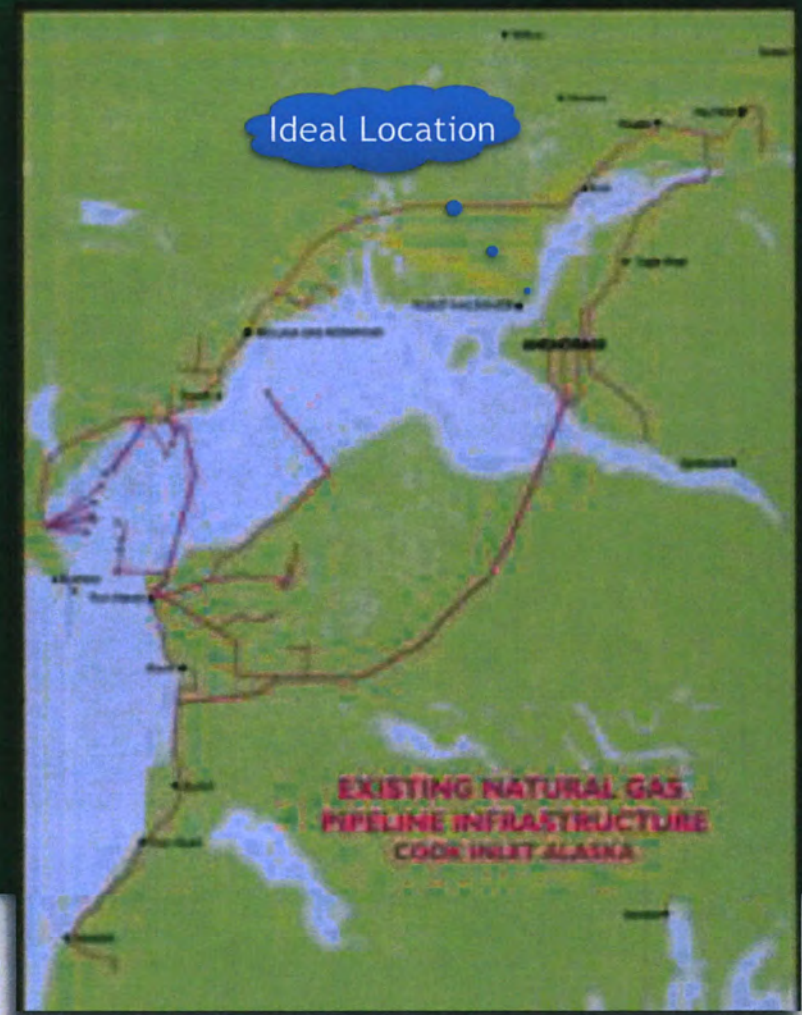
WesPac Port MacKenzie Renderings



How WesPac sees Port MacKenzie Attributes

- Ideal location for LNG

- Existing port
- Abundant land
- No major permitting
- Minimal impact
- Gas pipelines
- Power transmission
- Rail lines
- Truck access
- Marine access
- Peaking for utilities
- Growth opportunities



Competing interest in this



Hilcorp & AIDEA both interested in buying the gas processing plant near Port MacKenzie owned by Tita. (Pentex, the parent company)

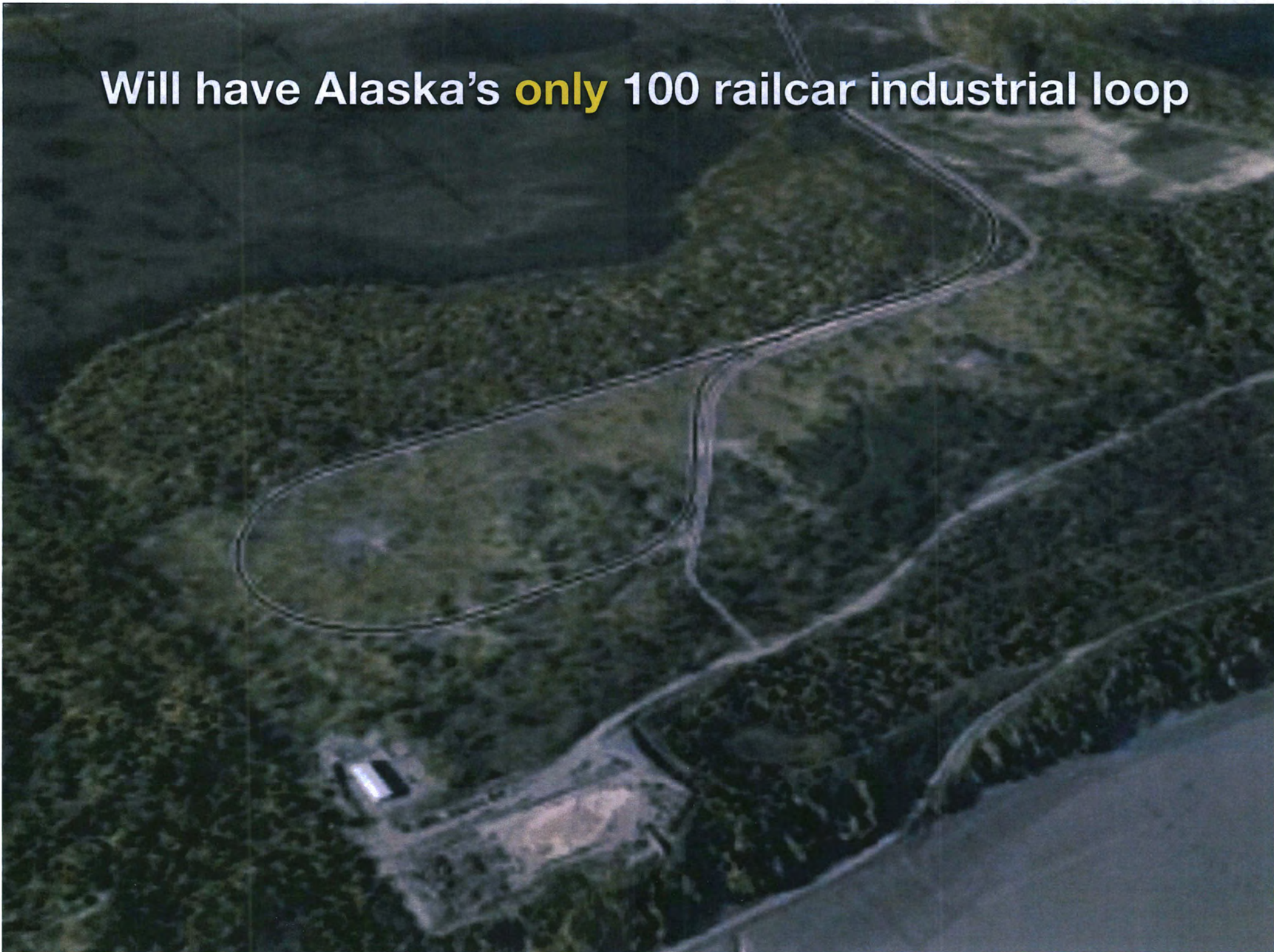
Central Alaska Energy

- 6.9 M gallon fuel tank farm, Central Alaska Energy
- providing low sulfur diesel fuel
- \$16 M in construction, may break ground 2015



**Central Alaska Energy
Fuel Storage Facility
Point Mackenzie, Alaska**

Will have Alaska's **only** 100 railcar industrial loop



An aerial photograph of a coastal industrial facility. In the foreground, a large body of water contains a dock with several ships, including a large cargo vessel. The shoreline is lined with dense green trees. In the background, a large body of water extends to the horizon under a cloudy sky. A yellow rectangular box with a blue border is overlaid on the left side of the image, containing the word "Exports".

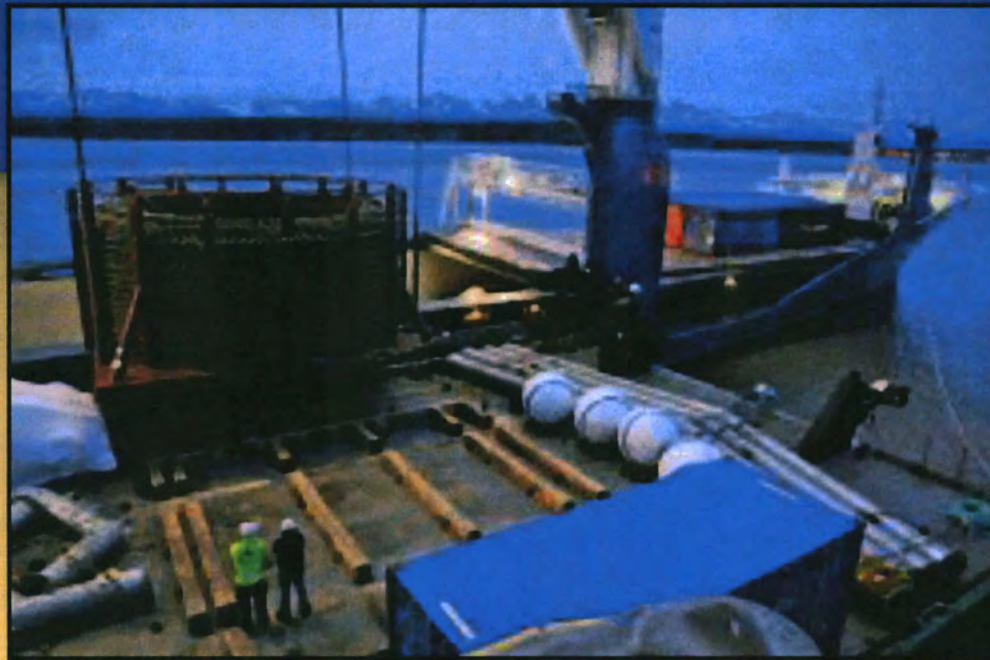
Exports



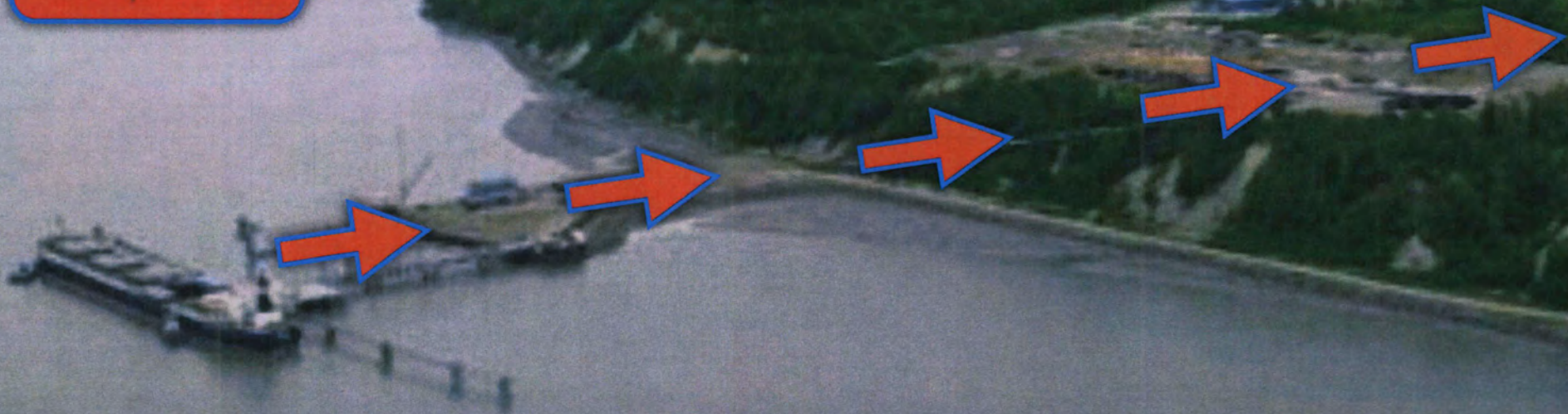
An MOU for natural gas with REI,
Resources Energy Inc. plans natural gas facility
in Cook Inlet, Port MacKenzie

A project cargo Port

- would reduce transportation costs for PROJECT CARGO on Alaska's biggest projects: natural gas pipeline, supplies for gold mines, large bridges, North Slope infrastructure
- would reduce transportation costs for recurring project materials delivery



Imports





LIVENGOOD

FAIRBANKS

DELTA JUNCTION

BEAULIEU

Imports

PORT MACKENZIE

project cargo

- steel for northern bridges
- pipe for old and new oil fields
- fracking sand for future shale oil development
- other petroleum-related equipment



Project Forwarding Lessee



Fort Knox

Examples of mines and mineral prospects along rail corridor

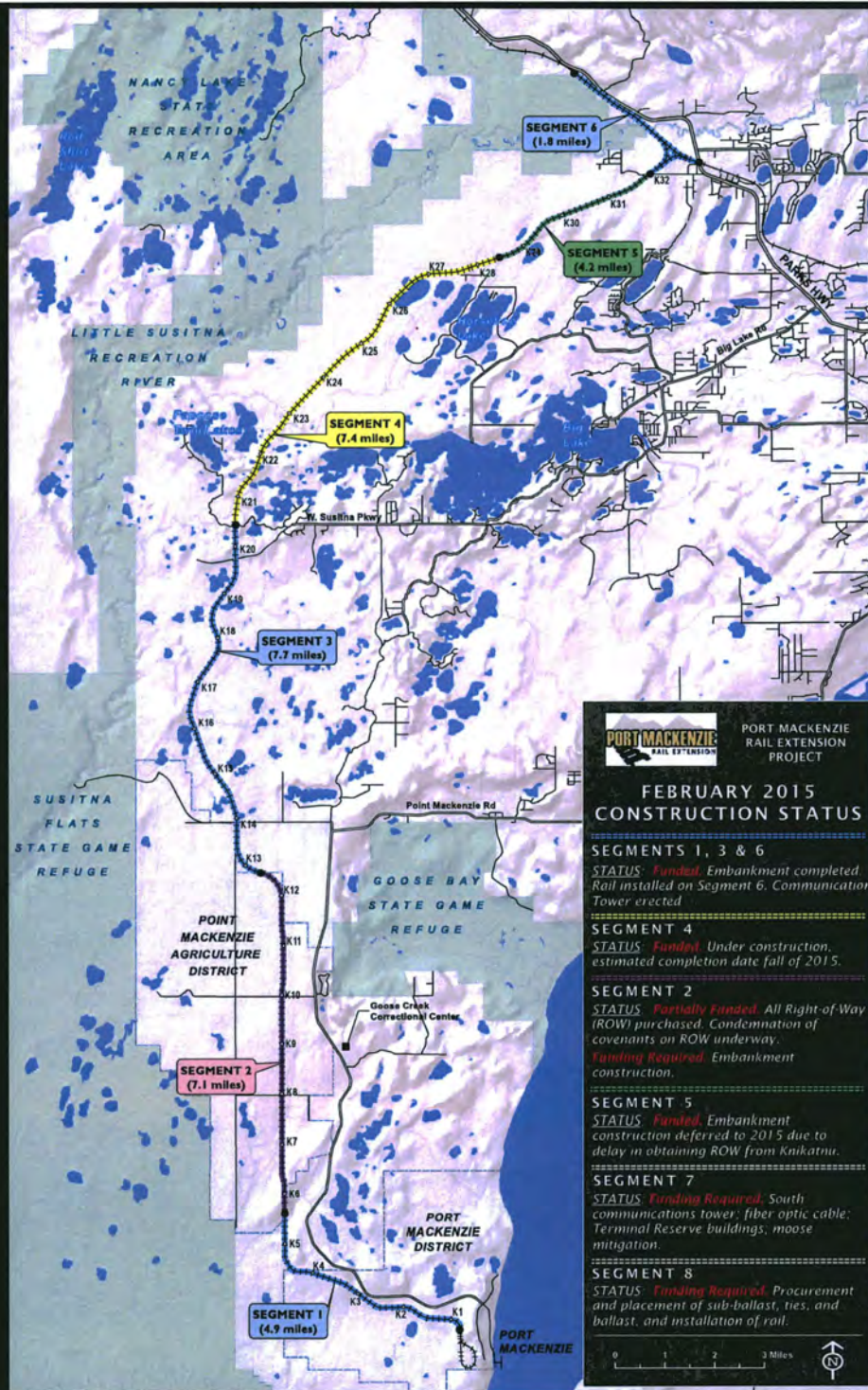




Greater Wasilla Chamber of Commerce
Raven Gold Alaska Pogo Mine
Central Alaska Energy JDM Consultants
WestPac Logistics Klondike Concrete Co.
Houston Chamber of Commerce **Accelergy**
Greater Fairbanks Chamber of Commerce
ALASKA GASLINE DEVELOPMENT CORP. Alutiiq
Greater Palmer Chamber of Commerce
Alaska State Chamber of Commerce **Koniag**
Houston City **Kinross-Fort Knox**
Alaska Railroad Fairbanks North Star Borough
Resource Development Council **NPI**
International Union of Operating Engineers
AEDC **The Alaska Miners Association**

Companies & Freight to use Port MacKenzie Rail

- ☀ WestPac Logistics
- ☀ Central Alaska Energy
- ☀ WesPac Midstream
- ☀ Sumitomo Metal Mining
- ☀ Alutiiq
- ☀ NPI
- ☀ QAP
- ☀ Usibelli



NANCY LAKE STATE RECREATION AREA

LITTLE SUSITNA RIVER

POINT MACKENZIE AGRICULTURE DISTRICT

SUSITNA FLATS STATE GAME REFUGE

GOOSE BAY STATE GAME REFUGE

PORT MACKENZIE DISTRICT

PORT MACKENZIE

SEGMENT 1 (4.9 miles)

SEGMENT 2 (7.1 miles)

SEGMENT 3 (7.7 miles)

SEGMENT 4 (7.4 miles)

SEGMENT 5 (4.2 miles)

SEGMENT 6 (1.8 miles)

Point Mackenzie Rd

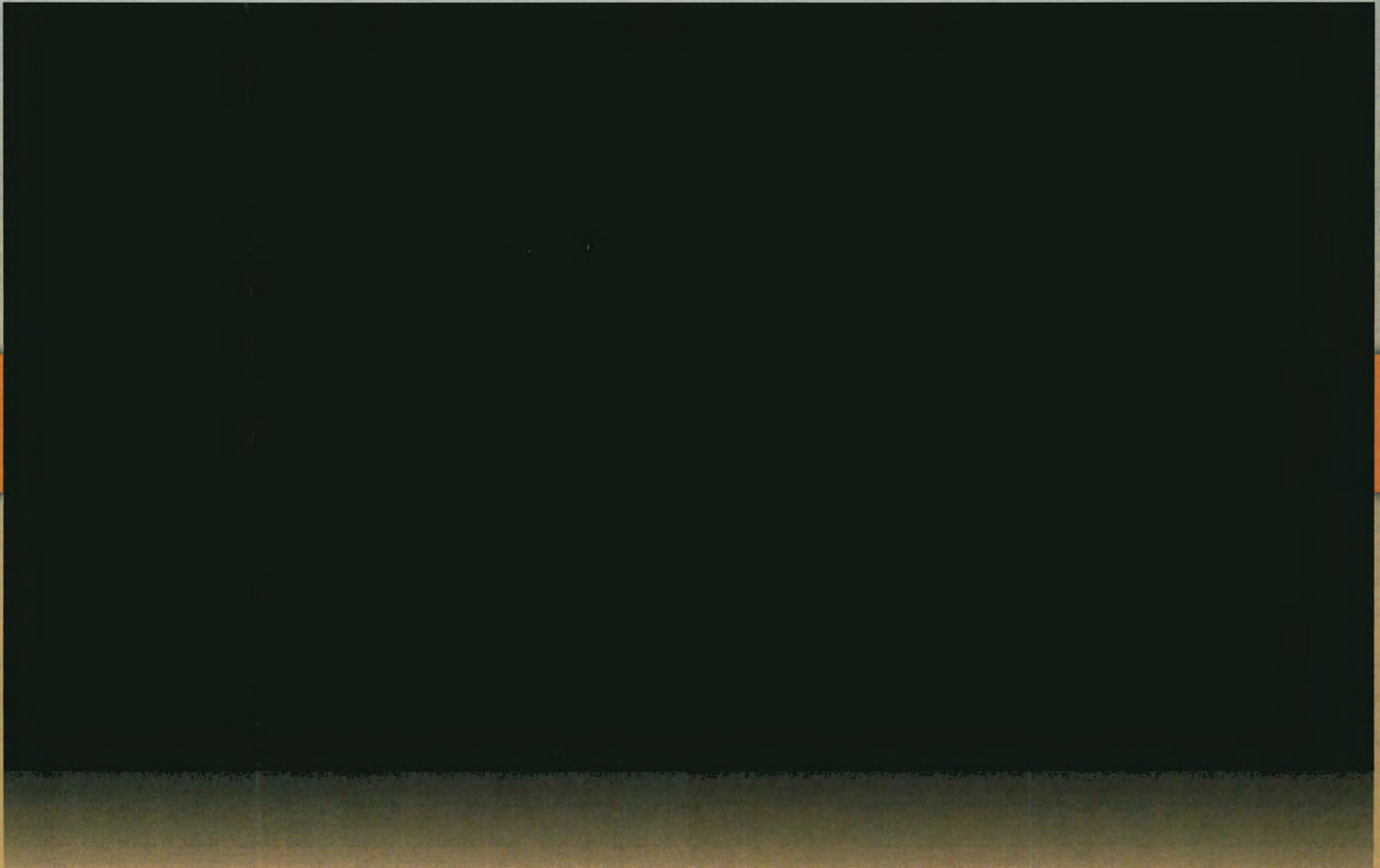
Goose Creek Correctional Center

Big Lake Rd

W. Susitna Pkwy

K1-K28

RAIL CONSTRUCTION



JOBS



Nearly 200 jobs at peak of 2013 & 2014 season



PORT MACKENZIE

RAIL EXTENSION

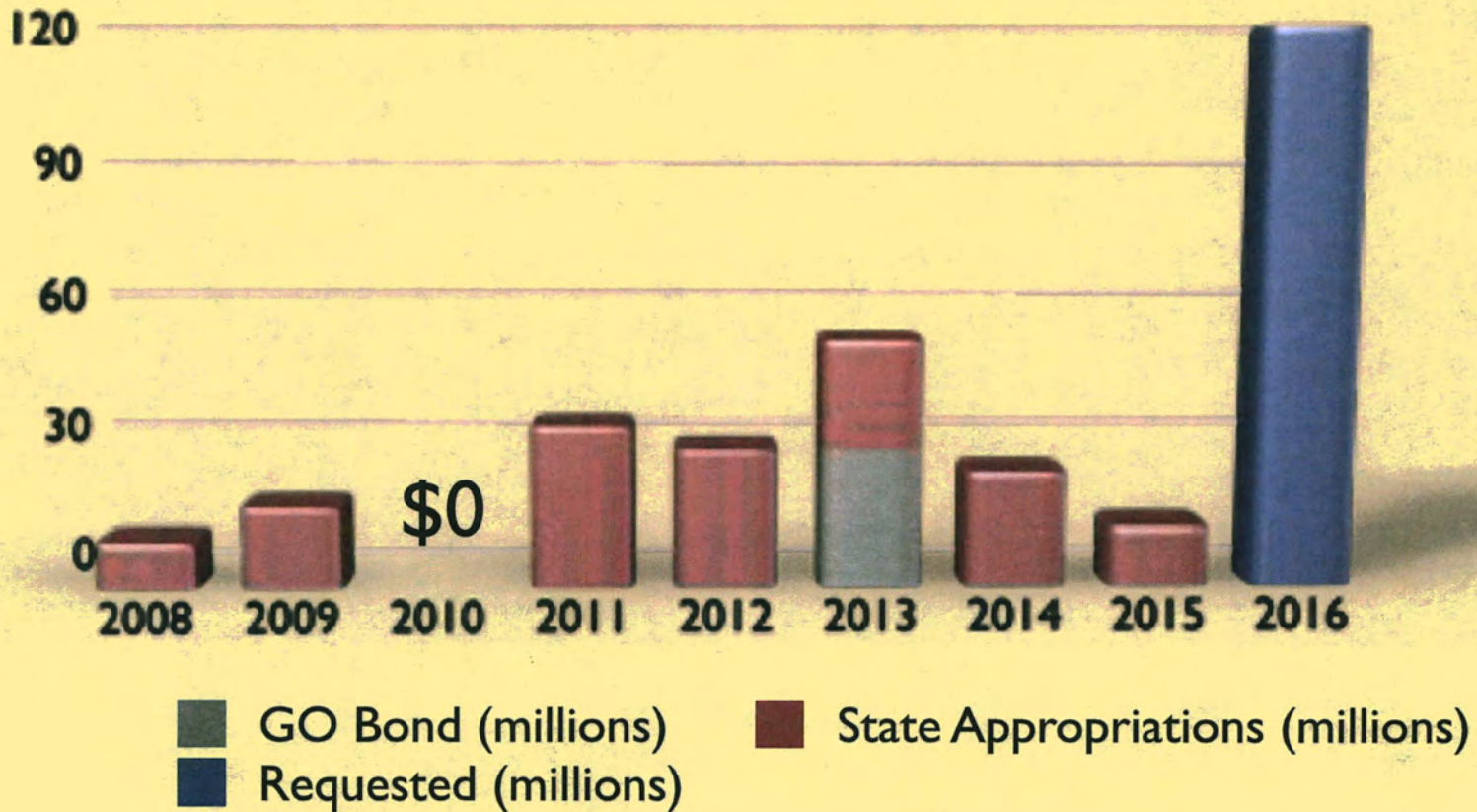


\$184 million

Seven separate appropriations
and a state-wide general obligation bond sale

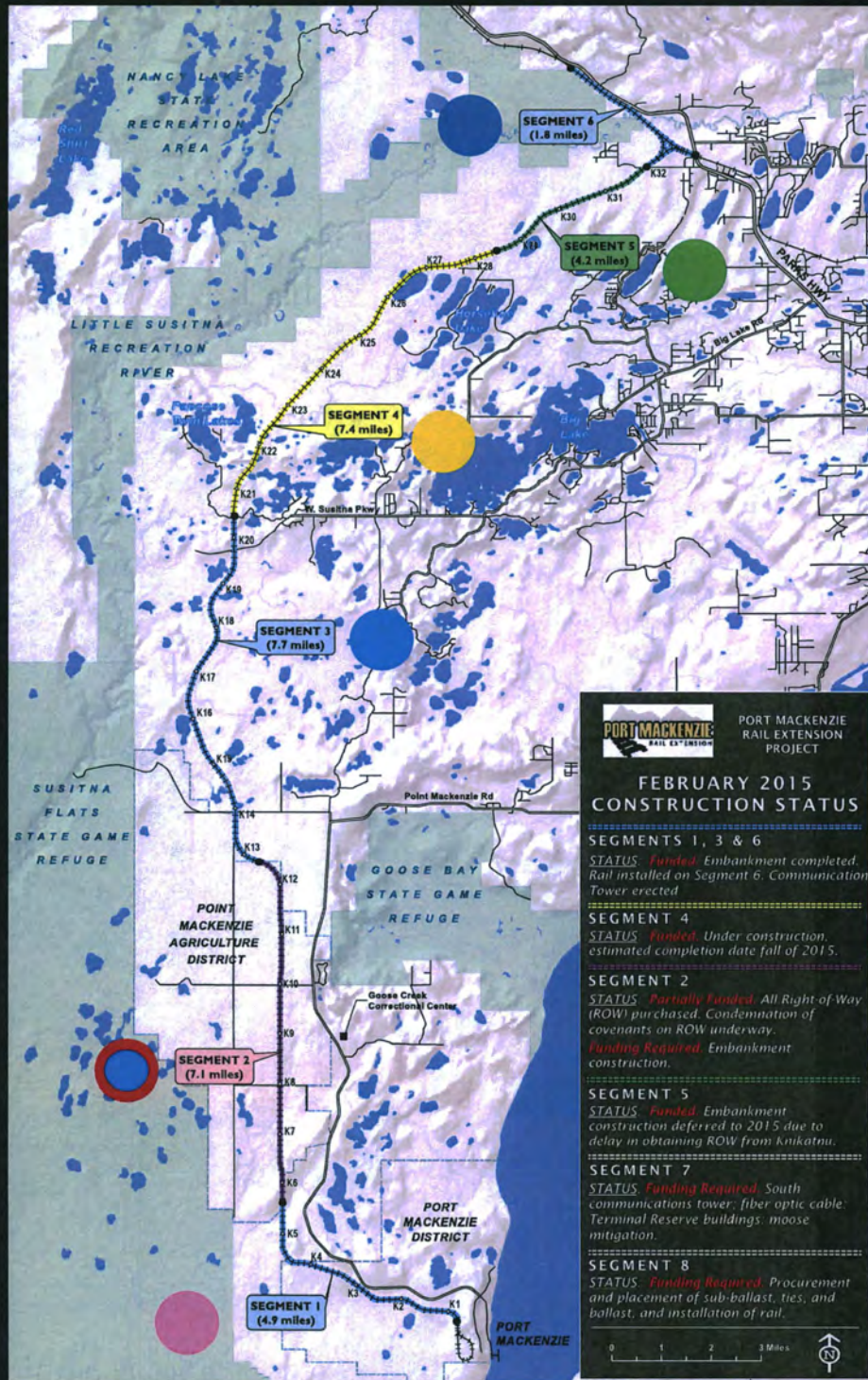


Project funding over time





Total funding to date

\$184 million




Funded

-  Segment 1
-  Segment 3
-  Segment 4
-  Segment 5
-  Segment 6

Funding Required

-  Segment 2
-  Segment 7
-  Segment 8

 Partial Funding





Thank You!

