Minutes
Inland Waterways Users Board
Meeting No. 67
August 29, 2012
Sheraton St. Louis City Center Hotel
St. Louis, Missouri

[Note: The following minutes of the Inland Waterways Users Board meeting No. 67 were approved and adopted at Inland Waterways Users Board meeting No 68 held on December 19, 2012 in Paducah, Kentucky.]

The following proceedings are of the Inland Waterways Users Board meeting held on the 29th day of August 2012, at the Sheraton St. Louis City Center Hotel in St. Louis, Missouri, Mr. Larry R. Daily, Chairman of the Inland Waterways Users Board presiding. Inland Waterways Users Board (Board) members present:

MR. LARRY R. DAILY, Alter Logistics, Inc.;

MR. JAMES F. FARLEY, Kirby Inland Marine, Inc.;

MR. MICHAEL W. HENNESSEY, Brownsville Marine Products, LLC.;

MR. CHARLES A. HAUN, Parker Towing Company;

MR. MARTIN HETTEL, American Electric Power (AEP) River Operations;

MR. MARK K. KNOY, American Commercial Lines Inc.;

MR. W. SCOTT NOBLE, Ingram Barge Company;

MR. MICHAEL T. SOMALES, CONSOL Energy.

Board Members Mr. G. Scott Leininger of CGB Enterprises, Inc. and Mr. Bruce Reed of Tidewater Barge Lines were not in attendance at the meeting.

Also present at the meeting were the following Federal observers, designated by their respective agencies as representatives:

MR. TERRENCE C. “ROCK” SALT, Principal Deputy Assistant Secretary of the Army (Civil Works), Office of the Assistant Secretary of the Army (Civil Works), Washington, D.C.;

MR. WILLIAM K. PAAPE, Director, Inland Waterways Gateway Office, Maritime Administration, U.S. Department of Transportation, St. Louis, MO;

MR. NICHOLAS MARATHON, Transportation Analyst, Transportation Services Division, Agricultural Marketing Service, U.S. Department of Agriculture, Washington, D.C.

Note: There was no observer from the National Oceanic and Atmospheric Administration (NOAA) in attendance at the meeting.

Official representatives of the Federal government responsible for the conduct of the meeting and administrative support of the Inland Waterways Users Board from the U.S. Army Corps of Engineers as follows:

MAJOR GENERAL MICHAEL J. WALSH, Executive Director, Inland Waterways Users Board and Deputy Commanding General for Civil and Emergency Operations;

MR. MARK R. POINTON, Executive Secretary, Inland Waterways Users Board;

MR. KENNETH E. LICHTMAN, Executive Assistant, Inland Waterways Users Board;

Staff support provided by the U.S. Army Corps of Engineers was as follows:

MR. JON SODERBERG, U.S. Army Corps of Engineers, Headquarters, Programs Integration Division;

Program speakers in scheduled order of appearance were as follows:

MAJOR GENERAL MICHAEL J. WALSH, U.S. Army Corps of Engineers, Deputy Commanding General for Civil and Emergency Operations;

MR. JON SODERBERG, U.S. Army Corps of Engineers, Headquarters, Programs Integration Division;

MR. RICHARD A. HANCOCK, U.S. Army Corps of Engineers, Great Lakes and Ohio River Division;

MR. JAMES E. WALKER, JR., U.S. Army Corps of Engineers, Headquarters, Operations Division, Navigation Branch;

MR. JAMES R. HANNON, U.S. Army Corps of Engineers, Headquarters, Chief, Operations and Regulatory Division;

MR. EDWARD BELK, U.S. Army Corps of Engineers, Mississippi Valley Division

Other individuals called on to provide additional information in response to questions raised by Board members during the meeting included the following:

MR. DAVID F. DALE, U.S. Army Corps of Engineers, Louisville District

There were no public comments made during the public comment period at the end of the meeting.

MR. MARK R. POINTON: Could we take our seats, please.

I'd like to welcome everybody to the 67th meeting of the Inland Waterways Users Board here in the City of St. Louis. We've had a meeting here before. I hadn't realized it had been so many years since we were here, so it's good to be back. We've got great support from the St. Louis District, so we appreciate that.

My name is Mark Pointon. I'm the Executive Secretary and Designated Federal Officer for the Inland Waterways Users Board.

Before we start the meeting, we are obligated to read for the record that the Users Board was created pursuant to Section 302 of the Water Resources Development Act of 1986. It provides the Secretary of the Army and the Congress with recommendations on funding levels and priorities for modernization of the inland waterways system.

The Board is subject to the rules and regulations of the Federal Advisory Committee Act as amended. This is a "Government in the Sunshine" Act meeting, and as such, is open to the public. If anyone wishes to make a public comment at the appropriate time or submit a statement for the record, please let Chairman Daily or myself know during the meeting.

The U.S. Army Corps of Engineers is the sponsor of the Board and provides the Executive Secretary, the Executive Director, and all normal activities.

The proceedings are being recorded, and a transcript will be available shortly after the meeting, and one final note I'd like to make is, the notice for nominations to serve on the Board were published in the *Federal Register,* and that notice is open until the 1st of October of this year.

I'd like to call on Colonel Hall from the St. Louis District now to provide some welcoming comments. Sir?

COLONEL CHRISTOPHER G. HALL: Thank you, Mark. Mr. Salt, General Walsh, General Burcham, Mr. Stockton, Members of the--of the Board, Mr. Daily. I'm Colonel Chris Hall, Commander of the St. Louis District Corps of Engineers, and it's my privilege to welcome you to--here to this great city, St. Louis.

As Mark mentioned, it's been a few years since the Board met here in St. Louis, but what a perfect time to come back. Last year's floods and this year's drought really illustrate the importance of, of our unified voice as it relates to the, the management of the world's, really the world's largest inland waterway transportation system, and certainly, what a year, what a

difference a year can make in the, in the condition of the river. Happy to have you here. Anything we can do to serve you while you are here, we're glad and, certainly, ready to support.

Mr. Alan Brandt, who is really the honcho who put this thing together, if you've got any support requirements, please feel free to see him, and again, I just want to thank you for being here, and I hope you enjoy your time here in St. Louis.

MR. POINTON: Thank you, sir.

Before I call on General Walsh, I'd like to remind everybody to please identify yourself as you are speaking, and to please speak into the mike so that we can get a valid and accurate transcript. Thank you.

Sir.

MAJOR GENERAL MICHAEL J. WALSH: Thank you, Colonel Hall. What a difference a year makes, indeed. Almost, probably Saturday of this week, it'll be a big difference within a week of what the river levels are like, but thank you all for, for being here.

I'm transitioning from "all y'all" to "you’se guys" as I move back to, back to D.C., but welcome all y'all for coming here today, or you’se guys, depending on what part of the country you come from, especially Alan and the District for pulling all of the logistics together. We wouldn't be able to do this without the District support putting that together, and certainly, it's great to be back in the City.

The Corps involvement in this city has been going on since, really, since before the, before the Civil War. 1824, actually is when Congress authorized to begin the improvements on, on the navigation on both the Mississippi and the Ohio River, and further, the integration of -- in a lot of the discussions that we have in the past few decades is how do we integrate the many missions that we have in the Corps of Engineers, and this, this city, this river system is really where we started looking at that integration.

The early levee systems that provided flood risk reduction, flood risk management, also served the navigation needs in this particular--in this particular area, and certainly, there is some notes at the, at the District office of Lieutenant Robert E. Lee working, working some of the documents in this particular, this particular area, and then recently in the last, last few decades, the District has been working on river training structures and deltas in the river to make the river more efficient for, for navigation, and certainly, there's been a lot of discussion in the media on whether those things were efficient or not, and with the, with the drought that we just--that we're going through, having those river training structures in place to make the river more efficient has been showing itself to be very, very beneficial, so there's all good reasons to be here in this city, in the confluence of many rivers.

I'd like to, to welcome our federal observers. Mr. Nick Marathon, Nick, thanks for being here. He's representing the Deputy Administrator for Transportation and Marketing Division of USDA.

Mr. Bill Paape is from MarAd. He's representing the Associate Administrator for the Office of Intermodal Systems Development from MarAd, U.S. Department of Transportation. Bill, that's a big handle. I thought Deputy Commanding General was a big handle.

And then also I'd like to welcome Rock Salt, who is representing Ms. Jo-Ellen -- the Honorable Jo-Ellen Darcy, who is the Assistant Secretary of Civil Works, and the federal observers will have an opportunity to make remarks before I turn the meeting over to, to Chairman, Chairman Daily.

An update on the happenings since the last meeting, of course, the President's '13 budget proposal of $4.73 billion, of which the inland nav would get $780 million, about $144 for -- million for Olmsted, and other construction projects funded would include Lockport, Lock and Dam 27, the Mon River Locks and Dams, the J. Bennett Johnson Waterway, the Mississippi between the Ohio and Missouri Rivers (regulating works), and the Mississippi River Channel and improvement dikes.

Currently, there is conversation back in Washington of a six-month continuing, continuing resolution, roughly at the same levels, we think, as, as the 2012 enacted. The President, Speaker of the House, and the Majority Leader of the Senate said that they've reached agreement, but of course, that's not in law yet, and things can, things can obviously change, and then the "S" word, sequestration, is still, is still out there and due to kick off on the 1st of, 1st of January if no agreement is reached on the budget. No guidance yet on how it's going to, to affect us as the Nation moves forward with, with sequestration.

In the Civil Works transformation, you've heard that briefing from the last time we were here. Budget transformation, we're looking at prioritizing projects, which we will recommend for funding and moving forward on a systems-based budgeting with a focus on holistic approaches that will maximize the rate of returns. This is consistent with the Inland Waterways Users Board recommendations, and better to have some, some projects that are in operation and producing benefits than a whole lot of studies and plans that are, that are ongoing.

In the Planning transformation piece, you've heard me talk about the 3-3-3 rule. Reviewing our, our inventory of feasibility studies, the beginning of this year, we had 365 feasibility studies, and we looked at reducing those another third and put another hundred in line for putting them in inactive status. That would allow us to move the funds that we do have on the less amount of feasibility studies and fund them closer to capacity than we--capability than we had in the past.

And the Infrastructure Strategy, life cycle management, I think you'll find in front of you the infrastructure strategy. We call that “USACE 2020” and that will talk a lot of the life cycle management, the decisions and discussions we've been having with this Board for a couple of years, decisions on repair, rehabilitation, and replacement, and--and disposal.

And then the last one in the Civil Works transformation is Methods of Delivery, should we have expertise in each district, or should we be looking at keeping the experts in particular

areas and moving work into particular areas as, as a method of delivery, and you will -- if you have not heard, you will be hearing soon about the Inland Design Center, on how we design locks and really putting those into two different areas, one the Mississippi Valley Division, the other one in, in the Great Lakes and Ohio Division, and controlled by one of the--one of those offices.

The IMT--IMTS future strategy, investment strategy, and some of the, some of the questions that we left at the last meeting, and I challenged the Board to--to look at, is to develop some specific recommendations for decisions for both the '13 and '14 budget. We have submitted our budget to the, to the Secretary's office for '14 and we'll be carrying that to, to OMB later, later in the month of, month of September.

The ultimate question that we need to ask, and I've asked the--this Board before, is what kind of inland water system do you want, what do you want it to, to look like? Some more specific questions are at what level do we want to fund Olmsted. We've had extensive discussions on Olmsted at the last meeting, and I know that I sent a bunch of additional information, and I see the Chairman has it in front of his desk, and I know that he, he passed on--passed it out to, to a lot of you, so there's a lot of information that's out there in regards to Olmsted, and we'll have briefings later today in that regard, as well.

Other questions that are out there is what construction methodology do we, do we want to use, do we want to continue "in the wet" or "in the dry", what options do we want to look at in regards to if there is not a 902 fix, do we slow down now, in '13, do we slow down more precipitously in '14, do we want to support a 902 fix, does the Board want to do that or not. If we use different funding alternatives, what, what projects other than Olmsted should we, should we fund? So there's--there's a lot of questions that are out before the Board, and the Secretary is looking for advice from this Board on how she should move forward. She's looking for, for recommendations, and she'll be receiving the recommendations from the Deputy Commanding General CEO in the September-October time frame.

Let me point out, or let me, at this point, turn to our federal observers to make any remarks, if they wish, and then I'll turn it over to the Chairman, so let me start with Mr. Marathon.

MR. NICHOLAS MARATHON: Thank you, General.

Again, my name is Nick Marathon. I work for the Agricultural Marketing Service. The Agricultural Marketing Service routinely reports about the importance of the inland waterways to U.S. agriculture. The waterways are an important transportation system for moving grain here in the Midwest to Mississippi River elevators. The low transportation costs of barges make the U.S. a world leader in the global grain market.

There's been some drastic changes this year in the corn crop. Back at the last meeting, I said that there would be about a 15 billion bushel crop. That has been changed because of persistent heat and lack of rainfall, the drought. The latest estimate is about 11 billion bushels.

If you can compare this to 1988, the last drought, that was--that crop was about five billion bushels, so we're doing a little better than the '88 drought but still, it's a drastic reduction, so again, thanks for the opportunity to be here, and look forward to today's meeting.

MAJOR GENERAL WALSH: Thank you, Mr. Marathon.

Mr. Paape.

MR. WILLIAM K. PAAPE: Once again, I'm Bill Paape, the Director of Inland Waterways for the Maritime Administration. On behalf of Keith Lesnick, the Associate Administrator for Intermodal Systems Development, I'm glad to be here and looking forward to working with the Board in the interests of commercial navigation.

MAJOR GENERAL WALSH: Thank you, Bill, and Mr. Salt?

MR. TERRENCE C "ROCK" SALT: I would just add my--my welcome, and on behalf of Jo-Ellen Darcy, and I'm really here to listen as we move forward on these really important issues, so that we all, the importance on which we all agree.

MAJOR GENERAL WALSH: Thank you, sir, and with that, I'll turn the podium over to the Chairman.

CHAIRMAN LARRY R. DAILY: Thank you, General.

Good morning, everyone. My name is Larry Daily. I'm happy to serve as the Chairman of the Board for this year.

I'd like to start off by thanking Mark Knoy and American Commercial Lines for dinner last night, a chance for us to talk about some of the very heavy issues that are facing us, and I'd like to thank Marty Hettel and AEP River Operations for our coffee service this morning, so thank both of you, very much.

The problems we're facing are extremely large and complex, but I've always tried to tackle things by doing them one thing at a time, but I think we need to recognize something that was said awhile ago, and it's been coming back to me a lot, that--that we're in charge of making recommendations on the world's greatest, most efficient, bulk transportation system. There's never been anything like it in the world. It's very important, and we don't want to be the first generation that hands down a river system that's in worse shape than the one we got, so we need to capitalize on what's been a, a tremendously successful, over the 200-year history of public-private partnership that we've had with the Corps of Engineers, and yes, in our office, we have drawings from Lieutenant Robert E. Lee of the Rock Island Rapids and how to get through 'em, so it goes back a long way with us.

We look forward to finding solutions to Olmsted, the future funding mechanisms, to sustainability, to prioritizing projects on a national basis. We--we would like to open up a dialogue with the Assistant Secretary. We have a number of people that, for other reasons, are

going to be in the Washington, D.C., area next month, so we'll try and get with Mr. Salt and his people to see if we can't sit down, and get some face-to-face dialogue going, and move that along.

Other than that, I also, as the General said, I have the backup material, so if, during the presentation on Olmsted, you've got a question, we can look it right up for you. It's only about 25 pounds of stuff here. It's slightly underneath the OSHA requirements for lifting by one person, so with that, I'll turn it back over to Mark and we can proceed with the meeting.

MR. POINTON: Thank you, Larry.

I request the Board a motion to approve the minutes of the last Board meeting, Board meeting number 66.

VICE CHAIRMAN MICHAEL W. HENNESSEY: So moved.

MR. POINTON: Second?

MR. MICHAEL SOMALES: Second.

MR. POINTON: So moved. Can I have a vote by the Board? All in favor?

(Affirmative responses.)

MR. POINTON: I think that's unanimous. Thank you, gentlemen.

I'd like to call on Jon Soderberg now, to talk about the Inland Waterways Trust Fund status and the financial report and project summaries of cost-shared projects. Jon?

MR. JON SODERBERG: Good morning. Jon Soderberg, Corps of Engineers Headquarters. I'm your Inland Waterways Trust Fund Account Manager at Headquarters.

If you could all turn in your Blue Book to tab 4, we'll start with some information you had at the last meeting, and we'll just go over real quickly in this meeting.

The first piece of information you'll see in that tab is the budgeting schedule. Stars denote where we are in not only ending FY-12, working through the FY-13 defense part of the program, tab 4, and where we're working through the '14 development part of the program.

The next couple of pages under tab 4 was in--yes, sir?

MR. MARK K. KNOY: Jon, Mark Knoy. I have a question. Maybe the General could help us out a little bit. During the defending part of the development and then the defending of the '14 program, where would the 902(b) come in? Would it be coming in under this development time schedule which is right now, or does it come in more towards the defending period? Just when does that really come to a head?

MAJOR GENERAL WALSH: The 902 request--the 902 request went in with the '13 budget, with the '13 budget request, and that was in the President's '13 budget request.

MR. KNOY: Okay.

MAJOR GENERAL WALSH: It has not been--it has not been approved or authorized by Congress as yet.

MR. KNOY: Thank you. Sorry, Jon.

MR. SODERBERG: Continuing with the next pages, this is the breakout from the FY-13 budget, the President's budget, as well as the House and Senate actions on those, so you can list through each project and see what was in not only the President's budget, but the House and Senate recommendations, by project. That is the same information as last meeting. We put it in here again for your easy reference.

If we can move to Tab 5, please, we'll begin the financial report and project summaries. On your first page, the status of the trust fund, again we provided it for you through the end of FY-11, history of the cash flow, and at the bottom of that slide, you'll see the current fiscal year receipts through July as posted by the Treasury Department; the fuel tax revenue, a little over $69 million; interest of $30,000. The total of $69,623,857, that's an increase of a little over $1.4 million from last year.

One thing that is not shown but I'll bring to your attention is the actual tax revenue is higher than previous years, but the interest is lower.

Moving quickly on to per project status, the next couple of slides, we'll go through the projects, and highlighted on these slides are their current status. For Chickamauga Lock and Dam, we're looking at the cofferdam construction, 99 percent complete. The dewatering and testing on that is underway. They're continuing to work the fabrications that the ARRA permitted us to do, and the lock design is complete, and award pending future funding.

For Kentucky Lock, the approximately $2.8 million from the construction and Inland Waterways Trust Fund allocated in '13 for use in real estate, and supervision and administration of that project; the $103 million superstructure contract is physically complete, and the upstream lock monoliths for $57 million all under, funding through ARRA, four of the ten options have been exercised for 61 percent completion. We'll continue construction through the fourth quarter of FY-13, and we remain on that critical path. This is one project that continues--we will continue to use ARRA funds on for the remainder of the period that we're allowed to use ARRA.

Locks and Dams 2, 3, and 4 on the Monongahela, continuing again some of the ARRA work on Charleroi river wall and the guardwall, guard walls, and prepping the river chamber for construction, continuing prior year fully-funded reallocations, and then cultural and environmental mitigation for that project downstream as it continues to go under construction.

Emsworth, we're still working on remaining FY-11 funds, through FY-12. About $6.7 million of those funds will still be available through '13 and '14 for Emsworth. Currently, we're out of balance, out of the 50-50 share balance between general construction and the Inland Waterways Trust Fund, so from that, we're still in a 50--working to get back in balance for that project to the 50-50.

Looking at Olmsted, the status, shell fabrication for season three is ongoing. The tainter gates, 10 of 11 shells have--11--8--excuse me, 18 shells have been set; still looking at operational of 2020, project completion in September 2024. I'm sure we'll have more discussion later in Mr. Hancock's presentation on that.

Markland, the construction is complete, and we're winding down that project.

Lock and Dam 27, a major rehab, the--again, a project that benefited from ARRA, all the contracts have been awarded. The main lock gates have been installed and are functional, and all contracts are on track to be completed by the end of 2013.

Looking now at Lockport, the canal wall has been returned to service. The controlling works are looking forward to be completed in FY '13, and the forebay wall schedule is depending on funding in '13 and '14.

And the IHNC [Inner Harbor Navigation Canal], due to legal action, the project was enjoined on September 9th, 2011, the—and we're pretty much on hold until that can be resolved.

Without further questions, that ends my part of this morning's presentation.

MR. KNOY: Jon, Mark Knoy of ACL. A couple of questions, if I could.

MR. SODERBERG: Sure.

MR. KNOY: Back on the second page of the presentation of the status of the Trust Fund, could you estimate for us what you think the 2012 revenues will be in total and what the 2012 expenditures would be?

MR. SODERBERG: The--we're estimating about the same--you mean for the end of 2012?

MR. KNOY: Yeah, for the entire fiscal year, what the revenues are estimated to be.

MR. SODERBERG: The revenues through the Treasury are projected to be around $75 million.

MR. KNOY: Because I thought you said it looked like they were ahead of the prior year's schedule, which was about almost $84 million.

MR. SODERBERG: The--going by what the what the Treasury is providing us and what they post online to all of us, they were projecting a slowdown because of things. They have changed account managers there. What we'll do for you is we'll get back with the Treasury early in September and get you more solidified numbers from the Treasury.

MR. KNOY: Okay, and the expenditures at least listed in this presentation are around $86 million? Is that the estimate for expenditures?

MR. SODERBERG: That's correct, and that includes spending some of the money that was in the previously authorized or apportioned category. More money was apportioned to the Inland Waterway Trust Fund, made available to the Corps than we actually used last year, so we're going to bring some of that balance down, so we'll actually spend, potentially, more out of the Trust Fund than the revenues because of the existing balance in the Trust Fund.

MR. KNOY: All right, and then one final question, Jon. On the Emsworth locks and dam, could you just explain what that means, the project being out of balance? I know initially, when that dam project was brought forward, it was under, I thought it was a dam safety funding mechanism of some sort, so I'm just not quite sure what that means with no funding required in '09 and bringing it back up. Could you just explain that?

MR. SODERBERG: The--at some point in '09, there would have been more expenditures coming out of the Trust Fund than the general construction fund, so we now have to get that back into balance so the project is 50-50 share between the two. The specific reasons, I don't have at hand with me today, but we can certainly get them for you.

MR. KNOY: But where we sit today is there more Trust funds that have been spent versus Federal funds, or--I'm not quite--which way is it to bring into balance?

MR. POINTON: Emsworth was, was one of the projects of that was exempt. This is Mark Pointon.

Emsworth was one of the projects that was exempted as a major rehab, so it was fully funded federal--

MR. KNOY: Right.

MR. POINTON: --in the one particular year. It was only for that fiscal year, so after--it was not completed that fiscal year, so we went back into a 50-50 sharing, so we have to get it back into balance, and that's where we are right now. More, more federal dollars have been expended than Trust Fund dollars.

MR. KNOY: Okay, thank you. Do we know what that number is, just what the expectation draw on the, on the fund will be, Trust Fund, to get it back to 50-50?

MR. SODERBERG: I don't have that at hand, but I could definitely get that for you.

MR. KNOY: Thank you.

MR. W. SCOTT NOBLE: This is Scott Noble. If I could, the ARRA [American Recovery and Reinvestment Act] funds, will those extend beyond the current fiscal year?

MR. SODERBERG: Yes. The ARRA funds go through December 31st of the calendar year for obligations. After December 31st, anything that is not obligated is rescinded, so anything we have on projects that is obligated, we can spend through 2015 as long as it's obligated on those projects.

MR. NOBLE: Thank you.

MR. SODERBERG: Thank you, Mark.

MR. POINTON: Any other questions for Jon?

MR. MARTIN HETTEL: Yeah. Marty Hettel with AEP. One question, Jon, on the ARRA funding. If we don't spend it through 2015, is there a number you can come up with that, say, would be not spent, and is that transferable through projects, or does it have to be that specific project?

MR. SODERBERG: Once it's obligated, it has to be that specific project. If it deobligates off that project, it is rescinded. Thank you.

MR. POINTON: Thank you.

Next on the program, we'll have Rich Hancock from the Ohio River--excuse me; got that backwards--the Great Lakes and Ohio River Division, and he will be discussing the--a number of issues related to the Olmsted Locks and Dam project.

MR. RICHARD A. HANCOCK: You guys hear me okay? My name is Rich Hancock. I'm the Business Director at Great Lakes and Ohio River Division. It's good to be briefing the Users Board again. I briefed you all in--on the 6th of June on this project. We have done several things since then to do some additional analysis and also progress the project through this construction season, so I'm going to talk a little bit about the status of the project and also going to talk about some of our additional analysis through this presentation.

Okay, so the first--or excuse me, slide 2 just shows the project. Everybody is very familiar with where the project is. This is the main stem of the Ohio. There are 20 locks and dams on the Ohio River. We've been working on modernizing the system since about the mid fifties, and Locks and Dams 52 and 53 are some of the oldest projects on the main stem of the Ohio and the last ones to be modernized.

Okay, in this slide you guys have seen before also, this once again just shows some of the historic issues related to Locks and Dams 52 and 53, and then the Olmsted project feasibility report and authorization in the mid Eighties.

I'm going to kind of blaze through here. I've got 45 minutes to present, and then I think we have another 15 minutes to talk about the way ahead, so about an hour total for Olmsted. Some of these slides you've seen before, so I'm going to blaze through them. Some of them are new information; we'll spend a little more time on those.

If you see anything that you want to talk about, though, and I'm blazing through, kind of wave at me, and I'll, I'll pause and entertain your question then.

Once again, this just shows where Olmsted is right now. The yellow are the projects that are currently under contract, the tainter gate portion right next to the locks, and then the nav pass which hasn't started yet, but it is part of the awarded contract.

So now we're on slide 5, which is the table of contents, and--and this just summarizes quickly the things that we're going to be covering today.

MR. KNOY: Mark Knoy. We went through the low water, and we started to talk about potentially having to lock through at Olmsted?

MR. HANCOCK: Yes.

MR. KNOY: Going through those steps, any concerns about the lock functioning?

MR. HANCOCK: Yeah, we actually--no, there's not--no, no concerns about the lock functioning. We did have a little bit of an issue early--earlier in the season. It wouldn't have stopped use of the lock, but one of the floating guide walls was, because of the low--low water, was kind of off kilter a little bit. We had some debris in one end, and we ended up removing that debris, and so everything is fine now.

We just talked about this subject yesterday though, during the Olmsted low water call we have several times a week. And right now, based on the projections, we're still a couple of feet higher, several feet higher than we would need to be to start locking through, and the projection is we're going to be able to maintain that. There's still significant capacity in Kentucky and Barkley, which are the two that have the biggest impact on the, on the water levels there.

We're releasing between 50 and 60,000 CFS from Kentucky and Barkley. We're going to project somewhere close to that level for the next several weeks, so we think we're going to be good at least well into mid September. Depending on what happens with rainfall, we'll be re-evaluating this several times each week, but we--we look good for the foreseeable future.

MR. KNOY: Thank you.

MR. HANCOCK: Okay, so slide 6, this is just a summary slide. I wanted to emphasize this. General Walsh made a couple of these points in his opening statements, and I'm going to come back to this again at the end, some of the things that the Users Board we consider to be current actions and then future actions, and some of these we'll talk about in some more detail,

but endorse the increase to the 902 limit, we would like to see that come out of this meeting, hopefully. We think it's compelling, and we're going to be talking about some of our analysis and some of our analysis of slowdown options for Olmsted that would have a direct impact on the completion date and on receiving benefits.

Next action up there is a recommendation, “in-the-dry” versus “in-the-wet”. We--we have been analyzing this for some time. I have some more information I'm going to be sharing with you today, but we'd just like your opinion on that, on how you would like us to proceed.

The third item on here is the slowdown plan, and I am going to talk about several options that we have looked at since the last go-round. We looked at a number of options for funding Olmsted, to include pausing Olmsted for two, four, or six years, a partial pause and a complete pause, and then diverting funds to other projects.

Since then, we've looked at a couple of other options in more detail. The one is fully funding; if we got all the money, if there was a fix somehow, what could we do, and of course, that's a moving target. When we first talked about this, you know, assume you got money in '12. Well, that's not going to happen. Well, now what happens if we get it at the end of '13? So we're going to talk with about that a little bit.

Other options that we're looking at related to the slowdown plan are pausing just a piece of the work to avoid hitting the 902 limit, or proceeding full speed, $150 million a year, and then when would we need to do an orderly shutdown, so we'll talk about those two scenarios in a little bit more detail also.

And then future actions we see that we would appreciate User Board involvement in, one is to help us to prioritize. We have done an analysis--and I'm going to talk about this in some detail--of 52 and 53, a qualitative risk assessment, since the last time we met. I'm going to share the results of that with you and then with what we--what we propose to do to lower risk a little bit of a failure of 52 and 53, and--and then tell you some of our concerns about funding for those, because that's not Olmsted funding; that's, that's operations and maintenance funding or some other mechanism.

And then another future action is the, of course, the long-term sustainable strategy that we can look forward to continued dialogue about how we can fix this Trust Fund issue.

Next slide.

Okay, construction status, I just wanted to give you a little bit of good news. We are making great progress this year. We have been doing in water work--now, this is our third season. We started in 2010. 2010, we had historic flooding of the Cumberland River. It was above a 5,000-year flood.

If you wanted to look at the scale, it really stops at a thousand years, but if you kind of extended the scale, it was a historic flood. That water, of course, we were dumping 300,000-plus

CFS out of Barkley and Kentucky. It was causing record water levels in this area of the lower Ohio River in 2010.

Of course, everybody knows what happened in 2011; we had record flooding of the whole Lower Ohio and Mississippi River, so the first two years for the in water work, we had challenges. This year, we have the challenge of low water, and it actually could be approaching record drought levels, we are looking at that, and some of the projections show us getting down to as low as we've been. We hope that that doesn't happen. We hope that we get--maybe this Isaac will help us a little bit, depending upon where it tracks. It looks like it's helping a little bit already, but, but we--there is potential for us to have record low water, too, but the low water isn't nearly as bad a problem as the high water is, so this year, we're making good progress on our placement.

Of course, the tainter gate portion is what's under construction right now. It's 18 concrete shells and five gates. We're working the shells. We're not working the gates right now. That's actually a future action.

We have eight shells that were placed in 2010 and 2011. Four shells were scheduled to be placed in 2012. That would get to us a logical stopping point. We actually have a stretch goal of placing six shells in 2012. Right now, we've placed two to date, and they were two of our larger shells, SBS-4 and SS-4. That's the Stilling Basin shell and the--Sill shell? What's the "SS-4" stand for, David? Or spillway shell? Sill shell.

Okay, thank you.

So we had those two large shells that we placed this year already. We're actually moving LP-3, which is one of the pier shells right now, lower pier, into place for placement in early September. This shows 14 September. We're actually a few days ahead of that schedule right now. We're looking at 11 September, and then LP-4 (lower pier 4), 28 September, when I developed these slides last week, early last week, this is what we were looking at, and we actually revised the schedule now to 23 September, so we're a little bit ahead of schedule for those pier shells, and then our stretch goal is to place two additional shells, SBS-5 and SS-5, and if you look at this schematic, it shows placement in 2010, 2011. 2012, the light blue that you see is actually what our plan is. Our stretch goal is going over to about the middle of the 2013 timeline, if you look at that.

SBS-5 and SS-5, I think you can see those. It looks like it's purple on this, on this slide, but we hope to place those two large shells also in the December-January time frame. I know it's very difficult to see the, the bottom key, but just looking at the 2012 season, it shows we placed SS-4 and SBS-4. LP-3 is being moved right now in preparation for placement in early September. LP-4, we'll place--once again, the current date is 23 September, and then SBS-5 in December and SS-5 in January.

One of the reasons why there's a little bit of lag, longer lag than some of these other placements between LP-4 and SBS-5 is because that section, we have to excavate and clean up about 20 feet of material on that foundation to get prepared for the shell placement.

MR. HETTEL: Marty Hettel with AEP. What would stop you from getting six shells set today? Just water levels?

MR. HANCOCK: Yeah, water levels. The things that have the biggest impact on us are high water and velocity, because as we do these shell placements, we have to have divers in the water at certain points, and it gets dangerous, so high water and velocity are the two things that have the most impact on us.

MR. HETTEL: And do you have that cubic-feet-per-second velocity that triggers that stage or--with you?

MR. HANCOCK: Yeah, I don't know it off the top of my head, but David [Dale], do you know what the velocity we're concerned about?

MR. DAVID F. DALE: The velocity of the water is right around two, three feet per second.

MR. HETTEL: Okay, thank you.

MR. HANCOCK: And we can do things, of course, to help that, but it gets dangerous out there. There are things moving underwater that you can't see very well, so we have to think about our divers.

Any other questions?

(No response)

Okay, this--this next slide shows the Nav Pass. We haven't started working at any of the Nav Pass shells yet. We do plan on starting some significant work in preparation for nav shell work this October. We would start doing some foundation preparation, and some pile driving, and things like that in October, and in fact, that may be something that we decide to slow down on, just because of concerns about hitting the 902 limit, and we'll talk in more detail on that in a few minutes.

Just a couple of things I want to point out about the Nav Pass shells as compared to the tainter gate shells. Tainter gate shells are a little bit bigger, just length and width, and the height is significantly bigger than the Nav Pass shells. They're a little bit heavier. We also have to line up the, the tainter gate shells, all four corners have pretty strict alignment requirements as we're placing these.

Once we get into the Nav Pass, Nav Pass shells 1 through 11 are identical. Once again, they're a little smaller dimensions, a little bit lighter, and we only need to line up one end, so there are several reasons why we're confident that, you know, this is going to proceed with less glitches once we get in the Nav Pass area.

The other thing is, of course, this is a shallow area of the river, and we don't have to excavate 20 feet. These Nav Pass shells, the wicket shells are almost on existing river bottom, so there's--that's another challenge that we won't have when we get into this section.

Any questions?

(No response)

Okay, this--Oh, go ahead Marty.

MR. HETTEL: Marty again. If you are showing three shells on a Nav Pass per year other than 2014, when we're setting four, possibly six today and if they're easier to set, wouldn't that increase more than three shells a season?

MR. HANCOCK: Yeah, we are looking at ways to optimize that schedule. I think it's more than three, though. I think with the--the Nav Pass shells and the PB-3 [Paving Block 3] are actually two pieces; right, David?

MR. DALE: (Nods head in affirmative manner)

MR. HETTEL: I see that.

MR. HANCOCK: Yeah. Okay, and I threw this slide in just to show some of our recent placement. This was for SS-4. It was placed on August 14th. You can see, and it's hard to see this, but this is how we kind of measure the accuracy of the placement at the four corners, so we did hit within the one-inch circle, which is the optimum, for all four corners of this, and we also were level within a quarter of an inch, which pretty astounding considering the size of these, you know, over 4,000 tons, and the depth of the water we're working in, so we're very proud of this, and in fact, this was a record in terms of actually lowering the shell into place. We did it in 10 and a half hours. Normally, it takes most of a 16-hour period or more to lay these things down, so we're learning lessons as we go.

And this, once again, just shows a couple of the large shells that we--under construction.

This slide just shows the duration of shells, the movement of the shells, and actually, this is for the large shells, the pier shells are closer to a two-week duration for putting them onto the cradle, lifting on, on the cat barge and hauling them into position.

After you place the shells, we have to tremie underneath the shells and make sure that that took, and then we have a lifting frame.

After the tremie sets up, and it has to set up to over a thousand-pounds-per-square-inch strength, once that happens, we can remove the bolts, remove the lifting frame, and then move back for the next shell.

This is our gantry crane, 5,300-ton capacity, with one of the large shells under it.

And this just shows the cat barge out in the water, a schematic that shows it putting a shell into place.

Okay, any questions about the status of construction?

(No response.)

I'm going to get into the next phase, which is our risk assessment of 52 and 53.

Okay.

MR. NOBLE: This is Scott Noble. I'm curious, when you fill the shell with concrete,--

MR. HANCOCK: Mm-hmm?

MR. NOBLE: --where is that plant? How is—

MR. HANCOCK: We have a plant right there onsite, and actually, it's not filling the shells. The shells are constructed on, on land, but underneath the shells is the tremie concrete piece, so they're not hollow shells; I just want to make sure I'm clear, but when you put them into place, there's a void underneath that we need to tie in everything, and that, that's--we have the plant right there on shore, and it just pumps material out to the shell placement.

MR. NOBLE: So that is pumped across the, the locks, themselves?

MR. HANCOCK: That's right. That's right.

MR. NOBLE: And that will be used to, to proceed all the way to the--to the other side?

MR. HANCOCK: That's correct, yes.

Okay. Lock and Dam 52 and 53 risk assessment. This is something that, that we did since we met last. There were questions last time about, you know, in what areas of, of greatest risk exists at 52 and 53, and what are we going to do to address those.

We actually put a team together of experts. We had this--and the team consisted of people from within LRD. Also, we had a couple of experts from Mississippi Valley Division and from the Risk Management Center that were on this team. We had them go out to the site for a week. We had them not only look at, put eyes on the project, but also look at the information that we had from several different resources.

We have original feasibility report condition assessments for 52 and 53 when the project was originally being justified, then we also have an operational condition assessment that was done, an inspection in the 2004-2005 time frame. This was when we were trying to get the

condition of all of our projects through asset management, we did operational condition assessments.

We also have the SPR, the screening portfolio risk analysis that was done by our dam safety experts back in the 2006 time frame, and then we have periodic inspection reports that we have, and dive inspections and things like that, so we put eyes on, on 52 and 53 many times over the years.

We didn't do invasive testing. We didn't have time to do invasive testing, but we did look at a lot of resources, so we had this team of experts look at all the resources for the project, and visit the project, and talk to people that operate the projects, and then they identified failure modes.

They came up with 39 failure modes, and, and then--that they considered to be credible, and after they determined the credible failure modes, they further looked at them, and discussed it, and decided which ones they considered to be significant, and--and their definition of "significant" included things-- would it cause a failure, and they had the define “failure.”

Failure, at least for the assessment team, was if it was going to cause an outage that would impact navigation for more than 24 hours, or if it was going to cause a loss of pool of two feet or more, or if it was going to cause a loss of life, so those things were considered a failure, and for these failure modes, the original 39, we decreased those to the ones that we consider to be significant, and there were 11 of them for Lock and Dam 52 and 12 of them for Lock and Dam 53, and I'll talk just a little bit more in a minute about those.

We also looked at a 10-year, a 20-year, and a 30-year window, and we asked ourselves what can we do to address these significant credible failure modes that we think are going to occur in the next 10 years, and then in the next 20 years, and the next 30 years, and the team wanted me to emphasize this, so I put a bullet in here to emphasize this. This is not repairing or rehabbing by any stretch of the imagination. This is more of a Band-aid to address the things that we think are most likely to cause a significant failure that meets those failure definitions I defined, so this is really a way to mitigate some risk, but it's not repairing the project and extending the useful life of the project. There's still significant risk of failure, but these are the things that we think are critical that we actually do that we think may occur in the next 10 years, to try to Band-aid those things so we don't have a significant failure and a potential loss of life.

I'm going to focus on more on the 10-year because it illustrates the 20 and 30 very well, just a little bit smaller magnitude. The cost to proactively address these, and I say proactive because we based our rough order of magnitude estimates on doing the work in a proactive manner, planning it, to repair the things that we think are likely to fail, not wait until it fails and then react to it. The cost would be significantly higher if we did that, so to proactively address these significant failure modes in a 10-year period is going to be about $96 million. Once again, this is rough order of magnitude. We didn't do detailed cost estimates because we did this analysis in about a five-week period, but we came up with $96 million, with $53 million of those for 52 and $43 million for 53.

We wouldn't be--our plan for doing this, because we don't have funding for this, so it would come out of our operations and maintenance funds which are already very limited. We have a huge backlog of maintenance that gets bigger every year because we don't have enough money to maintain our, our projects, but we would have to space this work out over several years. We certainly wouldn't want to wait until year 10 to do repairs for things we think are going to fail within the first 10 years, so we would probably space it over the next four or five years, depending upon funding constraints.

The other piece that we think is critical is that it's going to cause something else not to get done, and we have to look at that and determine what maintenance projects that we have planned elsewhere in the system aren't going to happen because we're addressing these things, and that's--that's something that as we look--it was one of the future actions identified for the Board--as we look at these and start developing a list, we'll probably dialogue with you, because we'd like your input on, on something that's not going to happen elsewhere, so that we can do these, these Band-aids for 52 and 53.

And then the 20-year period, we had a cost of $169 million; of the 30-year period, $247 million, and once again, we wouldn't want to wait until year 20 or year 30 to be doing some of these repairs, we want to do it in a proactive way, so we would probably space this over an 8- to 15-year period, depending on what we decided to try to repair.

I already mentioned the last bullet. We can't use Olmsted funds to do these repairs on 52 and 53, so we have some significant concerns about where we get the money and what the impacts elsewhere on our system would be.

MR. NOBLE: Scott Noble. If I can--

MR. HANCOCK: Go ahead, Scott.

MR. NOBLE: To do the work at 52 and 53, do I understand for the most part, has to be done during low water, which would be during periods of time when the locks actually need to be used?

MR. HANCOCK: Yes, but we've tried to minimize that. Not all the work--and you'll to see, I'm going to show you a list of the actual credible failure modes in just a minute,--

MR. NOBLE: Okay.

MR. HANCOCK: --and we've tried to identify impacts to navigation related to that work. Some of it has to be done during low water, some of it not.

MR. NOBLE: Thanks.

MR. HANCOCK: Any other questions?

MR. KNOY: Just one. Mark Knoy at ACL. As you identify these 39 potential failure modes, how many of them were delays to navigation of almost 24 hours? That's almost customary in today's environment. If we--

MR. HANCOCK: Right.

MR. KNOY: --excluded those, what would the numbers be versus 39?

MR. HANCOCK: I can't answer that off the top of my head, Mark. I can get back to you on that. We have actually about a 180-page report that goes through, you know, painstaking details of what this expert solicitation team analyzed, and I'm sure that I could probably pull some information out of that or ask them to provide some follow-up.

MR. KNOY: I'm just curious, because if we're really trying to maintain the system without any 24-hour closures, I think that's kind of one set of guidelines, but I don't--I'm not sure that's reality in today's environment.

MR. HANCOCK: Right.

MR. KNOY: Where we see these kind of issues because of maintenance throughout the system. I'm just wondering how much that would take off the table.

MR. HANCOCK: Right. I'm not sure, Mark. We can get back to you on that. I'm going to flip through, because the--

MAJOR GENERAL WALSH: Let me ask you a quick question, there, Richard.

MR. HANCOCK: Okay.

MAJOR GENERAL WALSH: These are 39 potential failures. I mean, these there might be other modes out there, modes of failure that we don't know about.

MR. HANCOCK: Absolutely. In fact, sir, just to address that, here, I'm going to slide 25, because it's kind of hard to read, but this shows the failures, and the potential failure mode number in the far left, these are the ones that we identified for 52--this is--this is 52 slide, a 10-year period, are significant, so credible and significant, so there's 11 of these if you look in the left-hand column.

One of these, and it's the potential failure mode number 29, we didn't have on our list. We didn't think that was going to happen in the first 10 years until last week, when it failed. We had a failure of this actual, the wicket-embedded hardware where concrete is being rounded out over the years, and the actual mechanical connection piece, the metal failed, so—so we said okay, we guess this is something that's likely to happen in the next 10 years, so we added that to the list.

Go ahead, sir. Did you have any more part of your question?

MAJOR GENERAL WALSH: Well, I'm just thinking of Mr. Knoy's question. Is the precision of a 24-, or a 48-, or a 72-hour failure--I don't know if our potential failure modes are at, are at that precision.

MR. HANCOCK: They're not at that level of precision. I can tell you, sir, that there were other failures that are addressed in the report that didn't meet their definition of, of a failure, you know, those three things that I described, but they are things that we're going to have to address, so they did capture some of that information in the report for other failure mechanisms, too.

Okay.

CHAIRMAN DAILY: Rich, this is Larry Daily. Kind of adding on to Mr. Noble's question. Right now, the, the mitigation plans where you are going to spend the, the money on them, don't include shutting down navigation for 24 hours or more, right?

MR. HANCOCK: Actually, they do. If you look at this slide, some of these, if you look at the chamber cell failure, we would have a 14-day closure associated with that repair. For the miter gate anchorages, we'd have a 12-day closure. For the guide wall failure, we'd have three seven-day closures, so there are some closures related to some of these failure modes, even fixing it proactively, anticipate we would have some closures.

CHAIRMAN DAILY: But that wouldn't necessarily shut down both chambers at the facility, right?

MR. HANCOCK: That's--that's correct.

CHAIRMAN DAILY: Okay.

MR. HANCOCK: Some of these, we would have, you know, the--

CHAIRMAN DAILY: --delays, but not a complete shutdown.

MR. HANCOCK: Right.

MR. KNOY: Rich, one more. Mark Knoy at ACL. Maybe a point of clarification, as much as anything. As we look at 10-year, 20-year, and 30-year scales of potential failure, the 10-year is going to face us either way, isn't it, really?

MR. HANCOCK: Right. In fact,--

MR. KNOY: That's really kind of off the table. It is what it is, whether we get Olmsted done or not. This 20 and 30 years, if we don't do anything else or don't continue on at Olmsted, is that what we're look really looking at?

MR. HANCOCK: If we think we're not going to finish Olmsted in 20 or 30 years, we would--we would be having to do these things.

MR. KNOY: Right.

MR. HANCOCK: And once again, that's not going to significantly increase the life of the project.

MR. KNOY: Right.

MR. HANCOCK: We still have a major failure and lose the project, but--

MR. KNOY: I guess my point was, here, it's almost moot to speak to, to the zero to 10-year issue.

MR. HANCOCK: Well, the reason why—

MR. KNOY: We're going to face those anyway.

MR. HANCOCK: The reason why I talk about that is because we're going to do that.

MR. KNOY: Right. That's my point.

MR. HANCOCK: And now that we've gone through some more detailed analysis and we see the cost impact, our recommendation is we need to do the 10 years either way.

MR. KNOY: Right.

MR. HANCOCK: So regardless of what's going on, regardless of “in-the-dry” versus “in-the-wet”, or even some of the pause scenarios, we're hoping to finish Olmsted in 10 years.

MR. KNOY: I understand.

MR. HANCOCK: So, so we think we need to do the 10 years regardless.

MR. KNOY: That was my point.

(Inaudible female voice from the audience.)

MAJOR GENERAL WALSH: I think the, the concern is it's about $18- to $20 million a year for the next four or five years to, to put these back into--

MR. HANCOCK: Band-aids.

MAJOR GENERAL WALSH: --whatever condition that we can do, and that twenty, eighteen, $20 million is coming out of other places in the system. It's not a plus up with this

eighteen, twenty million, and I think what Rich is asking is for assistance from the Board, or at least the individual members, where do we want to take that cut.

MR. HETTEL: Yeah, Rich, Marty Hettel at AEP. Is there any differentiation between the 600 and 1,200-foot chamber on these failure modes?

MR. HANCOCK: We have failure modes that address both. There is some differentiation, yes.

MR. HETTEL: Can that be broken down, too, when you look at this 24 versus 48-hour? Because it's a big difference between the 600 and 1,200 chamber.

MR. HANCOCK: Yes, there is. There is, and yeah, we can do that.

Once again, I'm a little hesitant—I appreciate the point that General Walsh made. Putting too much stock in the 24 versus 48 hours failure, because the team really looked at this based on expert elicitation, there's a--I don't want to, I don't want to get to several levels of decimal points refinement for something that really isn't that level of detail yet.

MR. HETTEL: But there would be more reasoning to emphasize the 1,200-foot chamber versus the 600-foot chamber.

MR. HANCOCK: Oh, certainly. Certainly, yes.

MR. HETTEL: All right.

MR. HANCOCK: That's true.

Okay, and then the next slide, 26, just shows for 53, a similar slide. The numbers are a little bit different, but this is for, once again, from slide 25 and 26 are both the repairs that we recommend doing to address the immediate 10-year concerns.

MR. NOBLE: Could I--this is Scott Noble again, if I could ask one question. When I look at the repair costs, those look pretty dramatic, and I know the number of wickets that you have there. I guess what you are saying, in effect, is if you have one or two wicket failures, I assume that's per wicket? That's the money you are looking at?

MR. HANCOCK: This, this fourteen million I don't think is per wicket, no. No, Scott. There is--and I--once again, I could give you a lot more details. I didn't prepare it for this report, but it was assuming a certain number of wicket replacements.

MAJOR GENERAL WALSH: And again, just to highlight what, what Rich said, they didn't think that the second item, there, the wicket-embedded hardware was going to be a problem until three weeks ago, when it was a problem, so I don't think this is fixing, fixing the failure; this is Band-aiding so it's not the failure.

MR. HANCOCK: Right.

MAJOR GENERAL WALSH: So I don't think it's wicket-by-wicket, as opposed to how do I put fourteen million across all those wickets with a Band-aid.

MR. HANCOCK: Yeah, we did have that, that failure mode 29 on our 20- and 30-year plans originally, but when we actually had a failure, that, that particular mechanism, we decided we better pull it on to the 10-year plan also.

Okay, and then some of the key points/summary for this assessment, both projects contain numerous critical components that are likely to fail, so we need to invest beyond our normal O and M.

Once again, there were eleven failure modes at 52 and twelve at 53 that we consider to be credible and significant that we need to address. Some of these represent risk to life and limb.

We think from an overall perspective, that regardless of the approach, that we were going to do the 10-year fixes, and once again, this is something that we're concerned about, so as we develop our maintenance schedule, which we are working on right now for the next year or two, we're going to have to look out a little farther than that and try to factor in the $20 million or $25 million a year that we want to use on 52 that we don't have programmed. We're going to have to take that--you know, we're going to have to move the line, so something right now that's above the line is going to have to not get done.

MR. HETTEL: Rich, Marty again. One more question, and what do you have funded for O&M at 52 and 53 currently? I mean, is there a number you have projected for--

MR. HANCOCK: Yeah, I don't have it off the top of my head. I think, I think it's about $15 million a year that we spend on O&M per year for these, but we do have some repairs programmed, but these are above and beyond what we had programmed.

MR. HETTEL: Thank you.

MR. HANCOCK: Okay, any other questions about 52 and 53? How am I doing for time? Okay.

I'm going to talk a little bit now about benefits calculations. You guys saw this slide last time. I guess the key point on this slide is we have gross benefits of $875 million a year, and we have net benefits that take out the cost of construction, and interest during construction, and things like that. That's $640 million a year.

You also saw this slide this last time. It just shows the primary benefit categories and the primary cost categories. Once again, when you are calculating the benefits to cost, we have guidance that tells us how to do that. The benefits are what, what transportation rate savings is the primary benefit you get by, by taking out 52 and 53, and then the primary cost is the cost of

constructing Olmsted, and average that out over a 50-year period from after you would get benefits.

We did look at some new scenarios. We actually looked at more than two. There's--there's two that I'm mainly going to talk about. Assuming that 52 and 53--well, I guess let me give you a little background first.

We've--we've been asked a lot of questions about our benefits calculations. The way the benefits work is, after the project, Olmsted, is completed and you start gaining benefits from that project, that starts the clock for a 50-year period that benefits are calculated based on this anticipated 50-year period. When we originally did the feasibility report, you know, we calculated that, we--when we did the PACR, we re-looked at that, and looking at that, we, we actually assumed that Lock & Dam 52 and 53 were going to have some outages over this 50-year period, and we assumed there was going to be some significant outages, about year 10. Now, when we did this, when we did the PACR, it was 2011-2012 time frame, right?

Year 10 was 2021.

Now, it just so happens that kind of concurrently, as, as we were updating the schedule, and the cost impacts of Olmsted, and knowing the funding constraints, when can we finish, well, that's--we get benefits to the project in 2020, so we had a major failure assumption in year 2021. We assumed we were going to lose 52 in 2021, there were going to be significant impacts in 2022 and 2023, so three years' worth of significant impacts, and then in 2024, a major failure of 53, with significant impacts in '25 and '26, so there was a six-year period, 2021 to 2026, in our 50-year calculation, that shows a significant failure of 52 and 53 with major impacts. That was having a significant impact on our overall benefit calculation and people were questioning that, so--so we went back and re-looked at it just to see what would happen if we removed that or if we slipped that, so that's the two scenarios.

We said okay, let's assume that we didn't have this failure of 52 and 53 in years 2021 to 2026. Let's assume that we take that and slip it by 20 years, so now it's happening in 2040 through 2045. What does that do to the benefits calculations? And furthermore, we assume that 2021 to 2026, we weren't going to have any outages related to 52 and 53.

That's--that's not a good assumption, but we just said for purposes of doing this illustration, let's assume 2021 to 2026, everything is moving through 52 and 53, no outages, and then we, we start having some impacts after that, and then we have a significant failure in 2040 through 2045. What that did--and that's the middle bullet, here--that decreased the benefits from $875 million a year to $513 million a year, so very significant.

In another scenario, we said let's just remove that completely. Let's assume that we don't have this significant failure we said in 2021 to 2026, let's just take it out, so now we have 2021 to 2026, everything is moving through 52 and 53, no failures, and then we, we, after that, start having some impacts but we completely removed that major failure impact, um--so having done that drops the benefits to $445 million a year, so--so we did those scenarios because we wanted to illustrate, number one, we wanted to see what the impact was to the benefits calculation, and it

is significant. It drops it about in half, from $875 million to $445 million, but the other thing that I get out of this is that Olmsted is still compelling.

If you look at the list of projects, and I pulled this out of what I showed in the last analysis in June, when we looked at all those different alternate funding scenarios, this shows out of Capital Projects Business Model, the annual average benefits for all these projects--and I know it's very difficult to read, but I'll just highlight a couple of them—if you look down the list, Lower Mon, which is the number two priority, $220 million a year.

The MVD Inner Harbor lock replacement, I think that's number 5 priority, but that's $160 million a year. The priority levels weren't driven only by benefits; it was driven by condition of the project and other things, too, but--so if you see the 220, then 160, then if you look at Chickamauga, $93 million benefits, Kentucky Lock, $66 million in benefits, so the benefits numbers are significant for these other projects, but they're not--they're not as compelling as Olmsted. Even looking at removing that failure completely from 52 and 53, that major failure, we're still at $445 million of benefits.

So that was--that was the big takeaway from this; it is significant. It dropped it significantly, almost in half, but it, Olmsted, is still a compelling project.

Any questions about that?

MR. KNOY: Rich, Mark at ACL. I want to make sure, I--I think I followed you through this point, but I want to go back to page 29 for just a minute--

MR. HANCOCK: Okay.

MR. KNOY: --and this 875-million-dollar number we're using, yeah, $875 million, there, it says "less Lock & Dam 52 repairs", "53 repairs". Last time we met, I think your annual expenditure of 52/53 was expressed at slightly over $8 million a year.

MR. HANCOCK: Okay.

MR. KNOY: Now, with this new look that you just took, saying it's $96 million in the time frame to complete Olmsted,--

MR. HANCOCK: Right.

MR. KNOY: --should those numbers for Lock 52 and 53 be more reflective of a hundred million versus twenty-three million?

MR. HANCOCK: Well, once again, we didn't go in and recalculate this. This is what's in the PACR.

MR. KNOY: I--

MR. HANCOCK: So--

MR. KNOY: --understand, but now we're sitting here, we're all saying as of the last five weeks, we've went in and took another look at it, and now our estimate is up to $96 million.

MR. HANCOCK: Yeah, and of course, we would have to average that--

MR. KNOY: Is that what you are going to get?

MR. HANCOCK: We would have to average that over the 50-year period, too, and of course, that would be extending--or increasing as the time goes by, but yes, I think we would.

MR. KNOY: But it raises the benefit number, does it not?

MR. HANCOCK: It would.

MR. KNOY: By, you know, in that 10-year period, $96 million; in the 20-year period, and--

MR. HANCOCK: That's right.

MR. KNOY: And--

MR. HANCOCK: That's right.

MR. KNOY: --the 30, so you'd add all of those numbers if you are going to discount them over the 50-year life, wouldn't you?

MR. HANCOCK: That's right, and we could do that, and it would be appropriate to do that. I guess my, my thinking on this, though, is how much do we want to spin our wheels recalculating benefits for different scenarios when we look at a very conservative scenario and Olmsted is still the top priority?

MR. KNOY: Yeah, I--

MR. HANCOCK: So that's--

MR. KNOY: I'm not asking anybody to spin their wheels.

MR. HANCOCK: Right.

MR. KNOY: I just think it's a more compelling story than what's being illustrated.

MR. HANCOCK: Okay. Okay. Well, that's-- you are right. I mean technically, we should go back and, and roll in what we consider to be required maintenance.

MR. KNOY: So part of my concern is you have, you have a benefit-cost ratio in this project with this calculation of 3.7,--

MR. HANCOCK: Mm-hmm.

MR. KNOY: --but it drops down to 1.9, and-- and how far up would it stay, where does it need to be in the BCR to be competitive with other projects?

MR. HANCOCK: Well, 1.9 would still be competitive, because we would be looking not only at the BCR but also at the amount, the dollar amount of annual benefits.

Now, I also want to caution this; don't grab on to this 1.9. This was a scenario done for illustrative purposes. We don't think that over this 50-year period all the way up to 2069, that we're not going to have a major failure of 52 and 53, and that's what that scenario is. That's assuming we don't have a major failure of 52 and 53. We just wanted to show what it would do to the benefits calculation if we took that out completely.

MR. KNOY: Right, but this is going to be part of the public record now,--

MR. HANCOCK: That's correct.

MR. KNOY: And our opponents are going to look at this project from here we were 3.5, now we're at 1.9, the scales of--the arrows point in the wrong direction.

MR. HANCOCK: Right. Right. Well, I guess there's a couple of--

MAJOR GENERAL WALSH: Let me-- address that.

MR. HANCOCK: Go ahead, sir.

MAJOR GENERAL WALSH: Let me address that. We, we the Board, asked, and me, specifically, as the DCG-CEO, asked them to look at some sensitivity analysis on that BC ratio, and the sensitivity analysis was, you know, assume 52 and 53 does not fail this time, assume it fails at, at a different time, so this is just the sensitivity analysis so that we feel comfortable—I mean officially, in, in accordance with the processes, it's the--

MR. HANCOCK: It's still 9.9-to-1 for purposes of authorization--

MAJOR GENERAL WALSH: The 800-million-dollar versus--

MR. HANCOCK: Right.

MAJOR GENERAL WALSH: --the 400 million, but I--but I wanted to see, even with the sensitivity analysis, is this still the highest priority in the system, and the answer is even with the sensitivity analysis, it is.

MR. KNOY: Mark at ACL again. I, I appreciate that,--

MR. HANCOCK: Yeah.

MR. KNOY: --but here we are going into try to support a 902 limit increase,--

MR. HANCOCK: Mm-hmm.

MR. KNOY: --and I just want to be sure that the benefit/cost ratios are correctly reflected in the record.

MR. HANCOCK: Right, and--and thank you. I appreciate that, Mark.

MR. KNOY: Because our opponents will be fighting us over this.

MR. HANCOCK: I appreciate that.

MR. KNOY: I can see that coming.

MR. HANCOCK: So--so let me flip to the next slide, just to make sure that the record correctly reflects the, the benefit and cost ratios. This is what's in the PACR, and the PACR shows a remaining benefit-to-cost ratio, which is used for authorization, of 9.9 to 1.

The benefit-to-cost ratio that OMB uses for program and budget development purposes, and that's to compare to other projects, they require a 7 percent discount rate for that purpose for program development, but that's 3.7 to 1, and that's based on the total cost of the project, so there's a couple of things in that number that make the reason why it's significantly different from 9.9.

One is the discount rate. The other is because the 9.9-to-1 is remaining benefit to remaining cost, and actually, it would be higher than that now, Mark, because that was based on October 2011. I mean, if we updated that based on the progress we've made on the project since then, the remaining project is much smaller, so we would be up well over 10 now if we, if we recalculated that, but that's what's in the PACR.

MR. KNOY: Thank you.

MR. HANCOCK: Okay.

MR. NOBLE: This is Scott Noble. Looking at these possible failures, to what extent was any consideration given to the possibility of an earthquake in that 50-year period? And is it, at a minimum, footnoted?

MR. HANCOCK: Actually, that is included. Let's see if I have--

(Inaudible, unidentified speaker)

MR. HANCOCK: Yeah, it's in that first bullet. Yeah. Thank you.

(Inaudible, unidentified speaker)

MR. HANCOCK: I'm running it. (Laughs).

So yeah, some of these credible failure modes you see here, the pile foundation, we did consider earthquake in that, and of course, the—when the projects were originally constructed, they weren't constructed to the same seismic requirements we have now.

Any other questions or discussion about the assessment of 52 and 53, or benefits?

(No response)

Okay, so now we're on the PACR. Once again, the PACR is what it is. We haven't modified it based on any of these new analysis scenarios. It would be appropriate to do that. I mean, you could update the PACR every year, but, you know, we based it on a snapshot October 2011. That's, that's the dates that we used to calculate these numbers.

Just some things, here, on slide 34. Olmsted is still the number one priority in the IMTS inventory. Even if we look at these sensitivity analyses with very optimistic or unrealistic, even, assumptions for failure of 52 and 53, it's still the number one priority.

We are discussing a slowdown of Olmsted—and I'm going to talk about that in some more detail in a few minutes--because of our concern about hitting the 902 limit. Right now, we, we will--we project that we're going to hit the 902 limit in 2014, but there are things that we would like to make progress on in construction; namely, the shell placement, and some of the things that we are going to start doing in 2013 are really some fairly significant expenditures prepping for the next phase of the work, the Nav Pass, and we're concerned about proceeding too far ahead on that if we don't have a fix to the 902 limit yet, so I'm going to talk about that in some more detail in just a few minutes.

So the bottom-line recommendation is that we hope that the Users Board endorses an increase to 902. We would like to see--I mean, we know what's happening right now with, with the budget, national budget. We'd like to see an increase in 902 sometime by mid 2013. Personally, I'm not real optimistic we're going to get that. If we don't get that, we will need to slow down Olmsted or stop it.

So is there any discussion about that? We're going to come back to come some of these things at the end, but is there any additional discussion about that right now, before I go into the "in-the-dry" and "in-the-wet" discussion?

(No response)

Okay. Once again, we talked about a lot of this last go-round. We did a feasibility-level, not even quite feasibility-level design of a cofferdam construction for comparison purposes. We also did a cost estimate, and we had that cost estimate go through the same certification as our cost estimate -- Center of Expertise risk-based cost estimate so we can compare it to "in-the-wet". It uses conventional construction methods.

We see this happening in two phases. The first phase would be a cofferdam on the far side of the river. The second phase would be the second cofferdam on the middle part of the river, right next to the tainter gates, and--and that phase would also include construction of the, of the Nav Pass.

Here's some of our key assumptions, and I'll just highlight, first let me, on this slide--yeah.

One of the key assumptions, here, is that we assume that we're going to continue getting $150 million a year.

Another is that we're not going to have an issue with being able to award a contract for "in-the-dry", and this is a concern of mine. The existing contractor couldn't just be converted to "in-the-dry". That's not within the scope of his work, so if we decide to go "in-the-dry", that would mean we would need to have an orderly shutdown, terminate for convenience, re-advertise, and re-award a new contract.

Now, he could compete for it, but you know, we can't just use the same contract, so if we did this, there are different rules that apply compared to our current contract. Number one is, we would either need full funding, and right now, our, our legal and our contracting staff are telling us for either the firm fixed price or cost reimbursable, if we awarded a new contract, we would either need full funding or we would need approval to use the continuing contracts clause, and right now, we don't have either one of those things, so to me, that's a significant consideration.

The reason we can continue on Olmsted without full funding is because it had a continuing contracts clause already in it, even though we aren't really using the continuing contracts clause because we're not letting the contractor spend out ahead, and we are controlling that because it's a cost-reimbursable contract, so we have more control over what he spends, so even though we're not really using the continuing contracts clause, the reason we're able to do that without full funding is because it is in the contract, so those are a couple of considerations if we decided to go with "in-the-dry." Any questions about that?

MR. KNOY: Rich, Mark at ACL. Could you go through the first part of that just once more for me? It's about the current contractor and what you are allowed to do--

MR. HANCOCK: Right.

MR. KNOY: --outside of that current contract, i.e., bidding another contract.

MR. HANCOCK: Right. If we, if we decided to switch at the end of the tainter gate contract, which is what we're looking at, so the Nav Pass, if we decided to construct that "in-the-dry" using cofferdams instead of the current "in-the-wet" method, we would need to terminate the existing contract at the end of the tainter gate section, you know, because right now, the Nav Pass is part of his contract, so we'd need to terminate that piece of his work, and then we would have to re-advertise and re-award a new contract.

MR. KNOY: Do you have an estimate how long that would take to do? Is that this two-year slowdown that we—

MR. HANCOCK: Yes, that's part of that, and actually--

MR. KNOY: --that you are talking about?

MR. HANCOCK: The re-procurement piece isn't a significant part of that two years, it is a part of it, a small part of it. Probably a more significant part of it is the two phases, because we actually would be awarding two contracts, so we would be constructing the first cofferdam under one contract.

This is what we would propose to do, and then we would be awarding another contract to construct the second piece of the cofferdam and the, the shells, which I mean they're going to be cast in place, but the, the actual Nav Pass is the second, the second contract, so, you know, part of that is building the cofferdam.

You know, it's going to take you a while to build a cofferdam out in the river, then you have to do the work to build the shells, then you have to build the second cofferdam, then--as you are removing the first cofferdam, and then you have to build the shells in the second cofferdam, then you have to remove the second cofferdam, so there are components of that that increase the time, and I can talk about that in some more detail. I don't have it all laid out here because I was kind of time constrained.

I can tell you that we're looking at a two-year delay to getting benefits. There are some things that we can do because we've tried to optimize that contract already. If we have a little bit of an infusion of cash, we could, we could probably pull it back to closer to one-year delay. We would need, in about the 2015-2016 time frame, at least an extra $30 million to, to do some of the work that would be happening concurrently between the two contracts, so-- so if we had that infusion of cash, we could optimize the schedule enough to probably get it closer to between a year and 18 months instead of two years. Right now, it's looking at a two-year delay.

MR. KNOY: Okay, Rich, Mark at ACL. Once more on that point. During that slowdown period that we've kind of called it--

MR. HANCOCK: Right.

MR. KNOY: --over a two-year period to potentially make a change, the current contract would continue, and the tainter gate portion of the dam, at least as we see it today, would finish in 2013, fiscal 2013?

MR. HANCOCK: Not completely. It would actually extend a little bit beyond that.

MR. KNOY: All right, but that would continue forward during this, quote, "slowdown period," unquote?

MR. HANCOCK: That's right, and there's a couple of reasons why we would propose a slowdown.

One is, we don't want to hit the 902 limit. The other is, if we go with the slowdown, it would allow us to maintain progress on the project and capability, because at this point, if you ask LRD, based on all of our analysis, we recommend that we continue “in-the-wet.” We think we're making--we're learning some lessons and--and things are progressing. I'm going to talk some more about that, too. That's not a uniform Corps position yet, but that's what our position is,--

MR. KNOY: Yeah.

MR. HANCOCK: --and it would allow us to maintain that capability without terminating the existing contract, so if we did then get a fix to the 902, there's two scenarios. One is, we just turn them on again at the 150-million funding level, and he could try to make up some time, and he would probably be able to buy back a little bit.

The other is if we decided to bank the money during whatever slowdown period we had, if we decided that, you know, we're going to get a fix to 902 eventually, let's not spend the extra seventy million a year on other projects, let's wait until the 902 fix happens, and then we'll have an infusion of cash into Olmsted, we could probably buy back some of that delay time then.

MR. KNOY: All right, but during this, again, quote, "slowdown period," unquote, you'd still spend the $144- to $150 million that's budgeted in '13 to finish up the tainter gate--

MR. HANCOCK: No.

MR. KNOY: --portion?

MR. HANCOCK: No.

MR. KNOY: No?

MR. HANCOCK: One of the slowdown scenarios we're looking at is actually starting to slow down in '13, and we would probably drop it back to the seventy or 80-million-dollar range.

MR. KNOY: Any reason not to go forward and finish the tainter gate, or is there tie-in issues or--I mean the tainter gate portion of the dam, are there tie-in issues if you change methodology or something, or why wouldn't you just finish that portion?

MR. HANCOCK: Well, there's no reason not to finish, but we would actually hit the 902 before we finished the tainter gate piece.

MR. KNOY: Okay.

MR. HANCOCK: So--so that's the reason why we would need to slow down. We want to finish the tainter gate. Our plan is to finish the tainter gate. If we start spending money prepping for Nav Pass work, that's going to decrease the amount of work that we can do on the tainter gate, but in any case, if we take all the Nav Pass work out, just finishing the tainter gates would get us up over the 902 limit.

MR. KNOY: All right. Well, I--I know at some point in time, we're going to have this discussion. I don't know if this is the best time, General, you know, it's the issue around the 902.

MR. HANCOCK: Mm-hmm.

MR. KNOY: We add the numbers together, it looks like we're still under there, but are you saying this is the time to start to make a decision on that and move that forward? We--we thought we had another year before we really had to--

MR. HANCOCK: Right.

MR. KNOY: --get behind the 902 decision.

MR. HANCOCK: Right, and actually, we may. I mean, there's one of the scenarios we looked at was continuing to work on Olmsted at full funding to include the Nav Pass work up through 2013, but what we would have to do in that scenario is essentially after the third quarter, so the first part of the fourth quarter, we'd have to start the shutdown.

MR. KNOY: Okay.

MR. HANCOCK: And the shutdown would mean essentially stopping the project and keeping enough money to keep the project in caretaker status for a period of time, whatever we deemed appropriate, until we think the 902 fixes would happen, so--so the two scenarios, the slowdown scenario is slow it down so that we can get through 2014 and maybe well into 2015, depending upon how much we wanted to slow down and still maintain progress, stay under 902, don't demobilize the contract so we could turn it on again immediately.

The other scenario is continuing to work full blast, hope we have a 902 fix by the, by the end of the third quarter of 2013, and if we don't, we'd need to stop the project, so that's--

MR. KNOY: So really, by June of '13 is when you really need the 902 fix--

MR. HANCOCK: Right.

MR. KNOY: --decision one way or the other.

MR. HANCOCK: Right.

MR. KNOY: Okay.

MR. HANCOCK: Because that's when we'd need to throw the switch on Olmsted.

MR. KNOY: Okay, so June of 13. All right.

MR. HANCOCK: Now, Mark, the reason why I offer a little bit of caution on grabbing a hold of that number--and this is really, I think, a Board discussion along with our experts--how likely do we think it is that we're going though have a fix to the 902 by June of 2013?

MR. KNOY: Who is going to win the election?

(Laughter.)

MR. HANCOCK: Exactly. Exactly, and that's--you know, I have, I have a high discomfort level of that myself, so I'm really leaning towards-- and I've talked to General Walsh about this--I'm leaning towards a slowdown starting in October of 2013--of 2012--I mean starting the first quarter of 2013. That's going to have impacts to the schedule. It's going to have impacts to the completion schedule for Olmsted and the overall cost, but we may be able to buy back some of that, and that's going to give us a more comfort level that we can get into 2014 and maybe through 2014 before we would need to have a fix to the 902.

So sir, do you have any of comments about that?

MAJOR GENERAL WALSH: Yeah. I don't know when the Chairman wants to start a discussion on the, on the 902, but the significance of it, and frankly, the Secretary's office and us, as well, we've got till '14, it's not a big deal, well, it is. You know, we can spend at the current rates and then the first quarter of '14, you know, pull everything out or look at it as the Division is looking at it a little bit more responsibly, how do we slow things down now so it's not pull everything out the first quarter.

MR. HANCOCK: Okay.

MAJOR GENERAL WALSH: I don't mean to put words in your mouth, but that's how I interpreted what you guys were saying.

MR. HANCOCK: Yeah, that's the way to interpret—

MAJOR GENERAL WALSH: There's going to be a decision that the Division will be recommending to the, to the Chief on full speed ahead and, or, or a more responsible slowdown, and so the Board's perspective on what you see on 902, whether you support, or don't support, or whether you want to have a discussion now or some other time today, that's--that's up to you, but those are, those are the impacts on the 902 piece.

Now, the “in-the-wet”, “in-the-dry” is a different piece, but related.

MR. HANCOCK: Thank you, sir. So that's kind of where we are with that. This--

CHAIRMAN DAILY: Hold on a second, Rich.

MR. HANCOCK: Sure.

CHAIRMAN DAILY: I have a question on that, back to the current topic, “in-the-wet” or “in-the-dry”. The inability to keep the current contractor and just change his scope of work, is that a Corps or a Department of Defense reg problem or authorization by Congress problem? Who do you--

MR. HANCOCK: It's actually--

CHAIRMAN DAILY: --go to to fix that?

MR. HANCOCK: It's actually a scope of the work of the contract problem. If--it's not within his current scope. That wasn't a part of what we awarded, to change the technical--

MAJOR GENERAL WALSH: So that's a federal acquisition--

MR. HANCOCK: --approach that significantly. Yeah.

MR. SALT: That's federal regulations.

MR. HANCOCK: Yeah.

CHAIRMAN DAILY: So if Congress, if they approve the PACR, they could add a clause to say that--well, no, they can't do that?

MR. HANCOCK: No, they couldn't.

MR. SALT: They could pass a law that says--

MR. HANCOCK: Yeah, and I don't really see Congress changing the FAR [Federal Acquisition Regulation] for a project. I mean, that's--that's one of our federal acquisition contracting regs that are government-wide regulations, so it would be a law.

CHAIRMAN DAILY: Okay. Well, just looking at it from a business sense, you've already--you are contracting with this guy on a cost-plus to spend more money than we're talking about him spending if you switch modes, in which you are going to continue the oversight on a day-by-day basis that you have, so again, just asking--

MR. HANCOCK: Right.

CHAIRMAN DAILY: --who would we have to go to to change, to identify--

MR. HANCOCK: That's a good question, and the difference in cost--I don't know if I mentioned it yet--the difference in cost is $109 million. We, we estimated that the "in-the-dry", assuming all of these things that we assumed, that we're not going to have any impacts, continuing contracts clause, full funding - all that kind of stuff, but just strictly looking at the technical approach, assuming a continuous $150 million a year and no problems with awarding the project, would, would save $109 million and take an extra one to two years, depending on if we had a little bit extra infusion of cash above the 150 for a period of time, so that's, that's the—looking at the technical approach of what's possible.

The other pieces of that, that does not account for, wasn't part of the team's--the cost estimating team's charter to say what's it going to cost you to terminate the contract, the existing contract, so it doesn't account for cost of termination, it doesn't account for cost of redesign, re-solicitation, re-award, possible protests, and—and I would say if you are looking at something like this, you know, we might think we have the strongest position in the world within the government, but the chances of protest are significantly increased if we're terminating a contract for convenience and then re-awarding that same scope again to someone else, so--so there are a lot of factors in there that would dig into that hundred-million-dollar savings.

MR. JAMES F. FARLEY: Mr. Hancock, this is Jim Farley from Kirby. As regards to that issue of stopping and starting with the contractor, surely someone within the government could have some estimate of the range of that potential cost. Is it larger than a breadbox, smaller than a barn?

MR. HANCOCK: Right.

MR. FARLEY: A million dollars or a hundred million dollars? What's the upper level?

MR. HANCOCK: We have a team looking at that right now, and--and we have a difference of opinion among that team that ranges somewhere between $20- and $40 million for the termination, but once again, that's very rough numbers. We're hoping to have a little bit more--but that's an unknown because, you know, the contractor is going to come in, and actually, the contractor has a period of time, a one-year period, if we decided to terminate a piece of his contract, to present his settlement proposal, and--and then we start negotiations, so it could be years before we actually knew what the cost was.

MR. NOBLE: This is Scott Noble with Ingram Barge. Generally, if you went into the slowdown mode because of concerns for funding, does that delay the time when you would have

to make the call of “in-the-wet” versus “in-the-dry”? You--I think you indicated October was the date where you would have to make that call, and is that based on funding and the progress of work?

MR. HANCOCK: The answer is yes, it does. If we, if we decided to slow down, and if our slowdown was not to do the Nav Pass prep work, that would delay the time when we would need--. Now, it may, and I would have to look at the more detailed schedule, it may impact the one- to two-year time frame because the 19 months we were looking at for, you know, redesign, there was ERDC [Engineer Research and Development Center] modeling in there because we'd have to remodel it because it's now cofferdams as opposed to “in-the-wet” construction. That's going to be like five to six months' worth of modeling, and then there's going to be a question about NEPA [National Environmental policy Act]. We don't know what that means yet, you know, EIS [Environmental Impact Statement], supplemental EIS, supplemental EA [Environmental Assessment], but there's a NEPA piece that's going to be in there, and then there's actually advertising and awarding a new contract, so we, we put 19 months in for all of that stuff right now.

All of that stuff could happen, a lot of that, concurrently with what's going on right now because it's not going to be, in the scheme of things, a real significant cost, so we could do a lot of that stuff anticipating we're going to be able to award in 2015 and not lose a lot of time, but that is a question. I mean, if we decide to delay the decision, we could probably still do some prep work, we could still do, scope out the NEPA piece and do some things like that, but it may impact the critical path for that one- to two-year delay if we delay on--the decision on “in-the-wet” versus “in-the-dry”.

Any other questions or discussion?

MR. FARLEY: Just from a business point of view, has there been any consideration, perhaps, to go out for a request for proposal to, to the construction industry to answer this question? I mean--

MR. HANCOCK: We--we, we have talked about that.

MR. FARLEY: --you are asking, do you know-- the Board is trying to figure it out, or hoping to figure it out, or maybe not hoping to figure it out. I don't know.

MR. HANCOCK: We have talked about that. In fact, there's a couple of ways we are considering. One is number one, we had a clear read from Counsel and Legal that we can't do anything that looks like we're advertising a new project without terminating the existing contract, but there is another question about sources sought. We could, we could issue a sources sought notification, and this is something to see what kind of interest there is out there. It's not actually advertising for a project, but it's trying to see if there's interest in a “best value” procurement which could possibly allow them to offer either “in-the-wet” or “in-the-dry”. I mean, we could say, you know, "What's your, what's your approach to doing the project?"

Now, we don't have a legal read yet. Legal is very uncomfortable when we start talking about something like that without having terminated that piece of the existing contract, because you get into all, all kinds of potential legal questions if we're asking for interest in a project that's already awarded, so I don't know, Kristin [Kristin Budzynski, Great Lakes and Ohio River Division, Office of Counsel], if you want to emphasize any of that, but the sources sought piece, we don't have a definite no on that yet, but we have a lot of concern about whether we can do that before we issue a termination for this piece of the work.

MR. FARLEY: This is Jim Farley again with Kirby. I never met a lawyer that wasn't uncomfortable, so-

(Laughter)

MR. FARLEY: But I would really urge, urge the Corps to consider and push that if you could, because if the question was build an LNG towboat or build a traditional, we would go to the industry and ask them for their ideas.

MR. HANCOCK: Yeah, and we would certainly do that, we wouldn't have any problem, we've done that many times if it was just a new contract that we were considering, but because we have an existing contract that includes that piece of work, it complicates things.

MAJOR GENERAL WALSH: And Mr. Farley, we're, we're looking at a number of lawyers, and also the contracting, the acquisition guys, and certainly, having an active contract and trying to look at these other options, at the numbers that we're talking about, to be off by a little in regards to if we do, if we do terminate and we've done something wrong on this end, it's going to add stuff to the reduction of the hundred million, so it--we got, we got the lawyers and the acquisition guys in a small room, having some tough conversations.

MR. HANCOCK: Okay. The next couple of slides, I showed this last time, so this isn't new, but the first phase of the cofferdam would leave about 790 feet between the tainter gate and the cofferdam for navigation, and we do have some preliminary estimates from ERDC that they don't think that would increase velocities to an un—un-navigable level, although there are certain high-water conditions where it probably would need a helper boat, and then this is the second phase of the cofferdam that shows a 700-foot gap between the fixed weir, which is already constructed, and the cofferdam.

And then this just kind of summarizes some of the discussion we've already had. We estimate that the “in-the-dry” would be $109 million less than “in-the-wet”, assuming no delays or experience due to, you know, supplemental EIS or NEPA, acquisition changes, incremental funding restrictions; a lot of big ifs out there.

Also, that 109, once again just to re-emphasize, does not account for cost for terminating the existing contract, or re-procuring, or potential protests, or any of those other things that might happen.

It also does doesn't account for the schedule delay. The schedule in the “in-the-wet” construction, the second bullet there, would be an estimated delay of two years. If we--if we can infuse a little bit more cash in, we think we can buy that back to somewhere in the range of one to--one year to 18 months' delay, but in the best-case scenario, we think it's going to be a one-year to 18-month delay and we would lose benefits.

Now, if you looked at strictly the benefits in the PACR, that would mean $875 million a year. That's not the actual benefits you would lose, that's an average calculated benefit. If you looked at the actual, it's going to range somewhere between probably around $30 million, which is--that's kind of on the low side of what we have seen historically transiting through Lock & Dam 52 and 53 compared to a new Olmsted. That would just be the inefficiencies and delays, so that would be the very low side, up to well over a billion dollars if we had a significant failure of 52 and 53, and anytime you are increasing the schedule by, you know, a year to two years and you are relying, then, on this hundred-year-old or 85-year-old, currently, system that we know is nearing the--it's beyond its useful life but it's nearing the end of its life, it's going to have some significant failures, I just get very uncomfortable if we're banking on the fact that we're not going to have some significant impacts.

And this kind of summarizes some of what we've talked about already, too. The “in-the-wet” construction didn't meet our desired schedule in 2010 or 2011. We had significant flooding in 2010. We had significant record flooding in 2011. We didn't place the number of shells we were hoping to place, but we do have reason to be confident in the “in-the-wet”, and this is, this is part of LRD's position as we analyze this in the detail.

One thing is we have saved, our construction, the actual fabrication of the shells is reduced by about 30 percent since 2010, since we first started building them, and we did this through learning lessons and also hired an efficiency expert, we call it "LEAN," a LEAN consultant to come in and look at the process, and we were able to optimize the process, actually decrease the size of the crews that are working on the shells, and we saved about 30 percent of the man-hours to fabricate the shells between 2010 and 2012, what we're doing this year.

Also, we are having good success. Go ahead, Mark.

MR. KNOY: Well, I think this fits right into here. So is the--Mark Knoy at ACL.

So is the contractor incentivized to find these same savings that you found through using a LEAN--

MR. HANCOCK: Absolutely.

MR. KNOY: --consultant?

MR. HANCOCK: In fact, the contractor participated in that. That wasn't just us.

MR. KNOY: Okay.

MR. HANCOCK: That was the contractor. We, we--yeah, that LEAN consultant was somebody that was working with the contractor based on our recommendation, that--and they're actually extending that beyond the shell application now to the marine work. The, the LEAN consultant is going to be looking at that and trying to optimize things, but he is incentivized because when the contractor finds savings like that, it could help him to earn a, a bigger fee.

MR. KNOY: All right, so those--I guess in a little bit, here, we're going to get down to the summary, but--

MR. HANCOCK: Mm-hmm.

MR. KNOY: --we shouldn't miss this piece if, if we really think we're gaining advantages through lessons learned--

MR. HANCOCK: Mm-hmm.

MR. KNOY: --in the overall cost of the project. Have we, I don't know, throw a fence around that number of some sort to change the benefit of “in-the-dry” versus “in-the-wet”? Doesn't it--

MR. HANCOCK: We, we have--

MR. KNOY: --start to eat into the 109-million-dollar--

MR. HANCOCK: Oh, definitely,--

MR. KNOY: --savings of--

MR. HANCOCK: --definitely does,--

MR. KNOY: --“in-the-dry”?

MR. HANCOCK: --Mark. We, we haven't done that. We wanted to base it strictly on here's what we calculated for the estimate based on the PACR for “in-the-wet” versus in, in optimized conditions. In other words, we just proceed along, $150 million a year, we don't have any problems “in-the-dry”, so it was strictly a technical approach, “in-the-wet” versus “in-the-dry”, $150-million-a-year comparison. We haven't looked at what we're optimizing right now in the “in-the-wet”, and we really, really should do that, and that's why I'm throwing them in here as considerations, but we haven't tried to recalculate the number.

I will give you just a quick illustration, though. Nobody asked me a question on this, but I'll, I'll highlight it. Right here, we were looking at the Nav Pass, and if you look at this, in building the shells for the Nav Pass, the wickets are actually on the shells. When you get done placing these shells, the wickets are in place. You can use the dam. This shows it finished in 2018. "Well, wait a minute. I thought you said you were going to go finish in 2020." Well, we

did. That's what we said. That's what the PACR is based upon. The contractor's schedule is 2018.

Now, we know a lot of things happen on the way to church, and--and our schedule built in high-water events, inefficient funding, we had risk factors, we developed a risk register with a lot of risk factors that were all weighted and percentages, and that was what was used to develop the contingencies for the project that went into the cost estimate, but the--the contractor's optimized schedule shows them finishing the dam in 2018, if nothing happened, if we had good seasons every year between now and then, and right now, he's ahead of schedule.

Of course, this is one year in. The first year, we've had good conditions, so chances are high that something would happen to impact this, but in ideal conditions, he would be done in 2018, so, you know, that's--and if he did that, since this is a cost contract, we wouldn't be using those contingencies that we built into the cost estimate.

MR. KNOY: You know, we're--we're being asked to make a recommendation, here, and this is just a general comment, certainly not at you, Rich, but just, I guess, on the subject. There are so many moving pieces to this to get an executive summary that I would typically see when I go out to do a project like this under our private, you know, the company I work for,--

MR. HANCOCK: Mm-hmm.

MR. KNOY: --we put all these side-to-side and talk about the level of confidence in each one of these line items. What would it take to kind of get that summary pulled together, Rich? It sounds like we've got a lot of pieces now of "in-the-wet", "in-the-dry", "do nothing", "do work at 52/53". Do we have that all kind of pulled together somewhere in one page?

MR. HANCOCK: No, we don't, not in one page.

MR. KNOY: If you could, you know--well, my point is, if "in-the-dry" is estimated at a 109 million dollar difference, now all of a sudden we've got to subtract maybe $96 million that has to come from somewhere to keep 52/53 alive, we're going to have continuing--or contract cancellation fees I guess I had call them,--

MR. HANCOCK: Termination fees.

MR. KNOY: Termination fees,--

MR. HANCOCK: Right.

MR. KNOY: --something like that, delays to get the new in, I'm not sure where all the numbers are ending up, here.

MR. HANCOCK: Well, Mark, I'm going to try to summarize the general cost of the two comparisons, and some of the considerations, which I'm rolling into the discussion.

MR. KNOY: Okay, good.

MR. HANCOCK: I don't have it rolled up, though, with a number for each one of these considerations. I don't have a number for the potential termination, I don't have a number for what we think the probability and possible impact of a protest would be, you know, I don't have those things.

We could spend some more time developing that, but once again, this is a lot of analysis, and I'm giving you, based on what we have today, the best information and the considerations that we need to consider as we're making this decision.

MR. KNOY: Well, I want to thank you for that, Rich, because I think there's been a lot of work done since we met the last time, and the information that we have is a little bit dated now compared to what you've shared with us,--

MR. HANCOCK: Right.

MR. KNOY: --so we appreciate you doing the work.

MR. HANCOCK: Yep, no problem; my pleasure.

Once again, I think this slide, other things, the reasons why we, we feel confident, I've already covered these, but I'll just refresh our memory. We had lessons learned, 30 percent decrease of fabricating new shells. Also, the fact that we're going into the nav pass phase, the nav pass phase is going to be easier than the tainter gate phase. The tainter gate phase is the deepest part of the river, the highest velocities. The shells are a little bit smaller dimensions - length and width; significantly less depth, so they have less impact from water trying to push them as you are trying to place it. They're going to be--there's not a requirement to excavate 20 feet down. We're getting better at placing these things anyway. 11 of the Nav Pass shells are identical, so we're going to have some efficiencies from that, so there's a lot of reasons to be confident that--and the fact that we are having good progress and a little bit ahead of schedule this year, so, you know, I think the “in-the-wet”, in my mind, is kind of proving itself out.

Now that we don't have record flooding, we're seeing that we are able to place these things, and we're actually a little bit ahead of schedule, so that's some of the considerations on why we feel confident that the “in-the-wet” will work and, in fact, get easier as we go into the future.

I'm moving now into the alternate funding piece of the discussion. We talked about this a little bit already, but this slide was just from the first--the June Users Board meeting, and I know it's real busy, but this just shows you one of the four scenarios that we looked at in June, and this was 4C which was the 6-year pause. The 6-year pause was going to allow money to be diverted to other rehab projects or other construction projects.

Lower Mon was the construction project, and we were really focusing on just the main chamber, not the full project, $187 million worth of benefits that would--completed 10 years

earlier, so you could look down--I'm not going to read through all this because we went over it in the last meeting, but this was one of the alternatives we looked at last time.

This time, we've looked at some new scenarios. One is a full funding scenario, and you guys asked us to look at a full funding scenario, so we did that. If we removed the constraint of $150 million a year, assume we get all the money up front, and assume we do that in 2013, it wasn't at the beginning of 2013, we assumed that we got all the money somewhere in the middle of 2013, we, we could pull the project back two to three years. There's still discussion about that, and we could save about $200 million.

If you start make these assumptions, there's always concern on when you are going to get the money. Our actual number was $180 million if you want to be technical, but the level of refinement probably isn't there to start talking about, you know, 180 versus, you know, $200 million, but full funding would allow us to incorporate a lot of efficiencies and we could pull the project back by a couple of years, reduce risk, reduce all the risk, in fact, from the inefficient funding, because there was a risk factor related to that, and then make more efficient purchases and finish the project a couple of years earlier for a couple of hundred million dollars cheaper.

The slow-down scenario we looked at was, looking at, in 2013 and 2014, reducing the expenditures from $144 million and $150 million, which is currently the 2013 and 2014 projections, reducing those to somewhere in the range of $70- to $80 million per year, so we would be continuing with placing shells. We wouldn't do any of the Nav Pass work.

This would allow us to get into 2015 before we hit the 902 limit, so the big consideration, here, is when do we think we're likely to get a 902 fix. If we think it's going to happen by the third quarter of 2013 and we're fairly confident in that, our recommendation would be proceed with Olmsted at full speed. If we think it's likely to happen after the third quarter of 2013, we would recommend that we start slowing the project down in 2013 and 2014 to about half of our current expenditures, to make sure we can get to 2015 before we hit the 902 limit.

Any questions about that? Go ahead, Marty.

MR. HETTEL: Rich, Marty at AEP. The full funding scenario of completing it two to three years earlier, does that include the two years earlier you think you could finish it because of these efficiencies you found, so are we really looking at four to five years earlier, or--

MR. HANCOCK: No, it doesn't. The efficiencies that we found in the contractor's schedule we think are likely to slip if you ask us, really, because based on history, record flood, record flood, record drought, and that's our first three years of in-the-water work, so there's a lot of dynamic things happening right now, we think it's likely that there's going to be something to happen that's going to impact his placement, so it doesn't pull it two years back from 2018, but I can tell you that if this really happened, and our level of refinement on this is not real deep right now, we have looked at it, we've kind of looked at the schedule, we said yeah, we could do this, we could buy all the tainter gates up front, we can do some efficiencies--we haven't looked at expanding the yard, the fabrication yard too much. I mean, there are some constraints we have that wouldn't allow us to do a lot of that.

There's also some constraints, too, what can you actually do in the river at one time at a certain point and not impact navigation, so there's some physical constraints working in this section of river without impacting navigation, but I can tell you that it's going to be better than what we have now, and what we have now is the possibility, and in optimum conditions, of finishing in 2018. I mean, that's what the contractor's current schedule is. If we get full funding, he's going to get better than that, so his schedule pulled left, it will reduce risk, I would say significantly, because he's going to be able to do things earlier, and lock in prices, and reduce his amount of time in the water, which reduces risk, too.

MR. HETTEL: Thanks, Rich, and this full funding is just to verify the $215 million a year that was discussed in--

MR. HANCOCK: No, we were actually—this scenario is looking at give us 1.4 billion dollars; let us--let us build the project.

MR. HETTEL: So full funded up front.

MR. HANCOCK: Right.

MR. HETTEL: Got you.

MR. HANCOCK: This scenario--oh, excuse me. One more thing on the slow-down scenario. We are actually looking at a super slow-down variation, too, something that's even more than, you know, $70-, $80 million a year, and really, if you look at this, there's some flexibility to this slow-down scenario.

We wouldn't have to make it go to in half in 2013. If we thought that there was a reasonable chance that we were going to get a 902 fix sometime in 2013, we would slow down, but we would probably not slow down to let's only spend $70 million, we could--we could step it down. We could slow down in 2013, and if nothing happened, slow down more in 2014 and still not lose that capability, and that would probably be the real scenario because we would be wanting to adjust our, our fire as we get more fidelity on when the 902 fix might happen, but the super slow-down scenario would get us essentially all the way through '15, so it would just be slowing down but continuing with “in the wet” construction of the shells.

Oh, one other thing; we do have a couple of options on the excess funds. I mentioned this, but I want to mention it again so you guys will think about it. We could divert the funds to other priorities. We could look at the list of projects in the Capital Projects Business Model, look at the next--the Lower Mon, for example. The Lower Mon could use some money. We could make some progress on the--on the main chamber. We're not going to be able to finish it in the next couple of years, it's still going to be 10 years to finish it, but, but we could make progress on the other priorities or we could put it on some rehabs like we had on this slide. We could start funding some of those things with the $70- to $80 million a year in the slow-down scenario, or we could not spend it. We could allow the Trust Fund to accumulate money and then, when Olmsted 902 is increased, we would have a slug of money so that we could try to make up some of the lost time we had while we were slowed down.

Okay, so the other, the other option is to continue at the current pace, essentially $150 million a year. The President's budget for 2013 had $144 million, but continue on at that pace, placing shells, start doing the Nav Pass work in October like we currently have scheduled, so we're maintaining the schedule, the current optimized schedule which, right now, is showing us finishing before 2020, and then if we do get a 902 fix by midyear 2013, we just charge ahead.

The pro of this, of course, is that you don't impact the scheduled cost. The con is, you are spending all of your money up front, and then if we get don't get a fix, you essentially have to stop the project, not just slow down, because we are going to hit the 902 in 2014, in the first half of 2014, and we don't want to spend all the money knowing we need some money for caretaker status, and we need some money to terminate the contract, we don't want to spend all the money up to 902 limit. We would have to start shutting down in the fourth quarter of 2013.

MR. HETTEL: Rich, Mary at AEP. If you had to terminate or suspend the contract, is there any penalty such as you were talking about "in-the-wet" or "in-the-dry"?

MR. HANCOCK: "Penalty," you mean something we'd have to--

MR. HETTEL: To the contractor.

MR. HANCOCK: To pay--no. If we terminated, it would be termination for convenience. Now, there's two types of termination; termination for default--

MR. HETTEL: I got you.

MR. HANCOCK: --or convenience, and this would be at the convenience of the government. Yeah.

Okay, so now we're at the end. The end is the key messages to the Users Board, and this is the discussion phase, too, so I think I've eaten up most of my time already. The first bullet is, based on all of our discussions and considerations to date, we would like to see the Users Board vote to endorse an increase in 902 limit, and--and I think that that means technically that you guys would write a letter to Ms. Darcy. I'm not sure how--the technical mechanism for doing that, but if I saw you vote, and raise your hands and say let's increase the 902 limit, let's support that, I would be happy personally.

So, call for a vote? Increase the 902--

(Laughter)

MR. HANCOCK: I don't have authority to do that.

MR. KNOY: So Rich, if this was your money, how would you vote?

MR. HANCOCK: If this was my money, I would vote to increase the 902.

MR. SALT: But that's--that's not money.

MR. HANCOCK: Yeah. That's an authorization. That's right.

MR. KNOY: I understand. That doesn't solve our--

MAJOR GENERAL WALSH: This may be the time, Mr. Chairman, for a discussion as we go down each one of these, these points, and then we'll--and then we'll take a break and then we'll come back and figure out if we want to go further on, on making a recommendation or not. It's kind of how we, the Board, wants to--want to go forward with these key messages but take these key messages as decision points or at least good, rich discussion points, and then a decision on whether we want to decide something or not. Mr. Salt?

MR. SALT: Part of the, the joy of working in Washington in some of these little quirks, normally, authorization changes are handled in an authorization bill by the authorization committees. The practice had been that if you, if you bump into your limit, that the appropriations, the money committees could approve the authorization change as part of an appropriations bill, and that's really what we're--what we, what we have been talking about, is--and in fact, Ms. Darcy has written to the Congress supporting 902 increase in the--as part of the appropriations process. Now, in the end, that's a--that's a Congressional issue as to how they do that, and right now, in a, in a world of--of views to cut back on things, there is not an appetite in the Congress to support this.

I mean, I think there was a bit of a surprise when, when she was--when she found out, when we found out that some of the staff communications that had been going on were, were not going to happen, so in a way, I mean, I think she has already supported, I think, or OMB [Office of Management and Budget] has already supported it, and having you weigh in on this just sort of adds to the--adds to that, and we would agree, I would agree, I would think that would be a good thing. You still need the Congress to agree to, to support it, and that's in, in an Approps [Appropriations] bill, and again, the kind of sentiment is, they'll do that if you run out of money in the year, so in a way, if you slow down into '15, you open the argument that you don't need the 902 limit this year. I mean, then you are good, so it's almost like you want to have a slowdown schedule that takes you to run out of funds in '14 so you can make that argument and--and yet be able then to ramp back up or slow down farther if it doesn't happen along the lines that they've been talking about.

I would say the Corps has made their recommendations for '14 on the budget side, but as General Walsh pointed out, Ms. Darcy will send her proposal to the OMB in September, which will start about a three-month conversation with OMB, and somebody mentioned the election. I--I've tried to think, is it going to make a difference. Would a Romney Administration have a different view of this than the second Obama Administration, and I don't see how. I mean, I just honestly don't see how that changes with respect to that.

I think--I'm hoping that the Congress softens some of their sort of no new, nothing new kind of a perspective that they have, and I--I think they are getting to that, that they've got to kind

of work their way through, particularly in the House, on some of these kind of--some of these notions of, in this case, a new authorization or an expanded authorization for Olmsted, but right now, it's my understanding that the push-back on all of this was in the House, the House appropriators, and I don't know if General Walsh has anything better on that or not, but--

MAJOR GENERAL WALSH: As a non-political guy, I would say I don't know, sir.

MR. SALT: Okay, and that's fine, and I'm--

MR. HANCOCK: As an engineer myself, I probably don't understand all the political implications, but I don't really see what the downside is to the Board endorsing an increase of 902. That's going to have to happen eventually anyway, while we've already made a recommendation up through the ASA's office that we increase it, so I think this would just--

MR. SALT: It's the same reason we haven't had a WRDA [Water Resources Development Act].

MR. HANCOCK: Yeah, as Mr. Salt said--

MR. SALT: You know, they are saying "We don't, we don't--you know, at times like this, we need to be cutting back, not authorizing new stuff." I mean, that's sort of the macro sentiment.

MR. HANCOCK: Right. Right.

MR. POINTON: And to be clear in the constructs of the Federal Advisory Committee Act, the deliberations and the decisions made by this Board are to be done in a public environment, so they are to be done in the meeting today or in some public meeting, not a letter or something done through Ms. Darcy's office later on, just so everyone is clear.

MR. HANCOCK: Thank you, Mark. Like I said, I don't know the right mechanism.

MAJOR GENERAL WALSH: Thank you, Mark. I appreciate that, and we've got the lawyers here to keep us out of trouble.

So I think what we have on the table is does the Board want to discuss the 902 limit further, or with do we want to vote yea or nay?

CHAIRMAN DAILY: Well, I'll step in here, and the Board can step on me if I misspeak, but our position has been that Olmsted is very important. It's--it has national benefits that, however you want to slice it, are very, very compelling to finish the project. Therefore, to finish the project, you have to have the 902, so I don't see where there's any way for us, with our current position, to say we oppose the 902.

I'm not real sure what benefit besides fluff you get out of us recommending it, but we'd be happy to probably do that anyway.

The--the other part of that, though, is, we have a big position that says Olmsted has exceeded the ability of the industry and Inland Waterway Trust Fund to be finished on our nickel, and we have a plan in Congress that we developed in concert with the Corps that takes Olmsted, and the dam part of the Olmsted, and federalizes it.

We also realize that we don't, we don't want to just do that and strip monies from other parts of the Corps budget, so we would develop a policy, and I guess the mechanism is our inland--our annual report, right, Mark?

MR. POINTON: Yes, sir.

CHAIRMAN DAILY: That would suggest that Congress up the funds for the Corps to include finishing Olmsted, not just say "Okay, go do Olmsted but you are still only getting the same amount of money." So our position is, are those two things--or my position is, and I'll ask the other members to chime in--letting 52 or 53 fail while you are finishing Olmsted is--it's a good way to recognize those benefits lost in real-time instead of the, the position that avoiding future delays is a benefit, so I think we support that part of the program.

Additional funding, we're open to discussing different ways for additional funding. We have our suggestion that's on the table, and we've approved it in our last annual report, in return for some benefits that, hopefully, will avoid an Olmsted situation happening in the future, we--we're willing to pay more.

We also think, though, that the beneficiaries of the inland system are, are widespread, as they're being shown right now through the, the drought and, you know, the--the electricity on the Ohio River is still flowing from the coal-fired plants because the dam system is working and we're getting deliveries. More or less, the system is working. Obviously, we can always use more money, but we're trying to find a way to do more with what we have. We commit ourselves to working with the Corps on that, and other than that, I think we're--we're in this with you. We're not against you. We have a couple of different ideas about how to get there, but I think we are still on the same side. So I'll open it up for other comments, please.

MR. KNOY: Mr. Chairman, Mark Knoy. I'd like to make a motion that the Board support the 902 limit increase, considered regardless of how it's funded.

CHAIRMAN DAILY: Okay, do we have a second?

MR. NOBLE: Second.

CHAIRMAN DAILY: Second by Mr. Noble. Any discussion?

MR. FARLEY: Yes, Jim Farley with Kirby. Sorry to be slow, but let me just make sure I understand, Mr. Salt. Perhaps you could go back over it again why we need to do this 902 piece outside of a comprehensive approach to this whole thing. Is it the timing? We don't have

time to make this part of a look at the whole process, the whole question, the whole what we need to do at Olmsted, so we're just going to do just this funding piece?

MR. SALT: I think it's what people have been talking about. I don't--I think it could go the way you are talking about, but I think right now, as everyone has said, they're running out of money. I mean, they're bumping--their funding stream is bumping into the authority, and they will--the lines cross and they will not have a legal basis to do any work on Olmsted, depending on how fast or how slow they proceed, so I mean it's a, it's a--that, that's what it is. If you could solve it another way--

MAJOR GENERAL WALSH: Any way forward requires additional authority.

MR. SALT: Correct.

MR. HANCOCK: The two things you need to work on a project is appropriation and authorization, so the appropriation isn't really part of this particular question, although it weighs into it a little bit. If we got faster or slower funding, it's going to increase the overall cost, but money's coming into the Trust Fund, there has been a consistent federal investment, so the appropriation isn't the problem, the authorization is the problem.

MR. SALT: I think what--what I was trying to talk about is, there is this emergency, although I don't want to use that word. There's this exception kind of a process that Congresses sometimes use to raise these authorizations when the lines start to cross in the appropriations process, and so that's generally what people have been talking about, is to go ahead and use the process to get the--to avoid the slowdown, shut down, that people have been talking about.

A comprehensive sort of a change to things, yeah, I think that's, that's also something that deserves discussion for lots of reasons, and that would--you can't--you can't do that under that process. That would be the separate process that we're talking about.

MR. KNOY: Mr. Chairman, Mark Knoy at ACL again. I just want to be clear. My--my motion is to raise the limit of 902 regardless of funding. I do not support funding out of the Inland Waterways Trust Fund. I support funding out of some other mechanism, but I do support raising the limit so the project can be finished. It doesn't contain how it could be finished, either. I'm just saying we—we need to finish the project, regardless of who pays for it or how it's completed.

CHAIRMAN DAILY: Right, and again, I'll just add, my intention if I vote for that, which I am inclined to, is to avoid the mistakes of the past which we're seeing right here, as just the, the ten years' delay that we've had since 2002 has added $96 million to the cost because now we've got to spend more money on 52 and 53. Slowing down does the same thing. That--that's just going back to the same failed programs that we spent twenty something, 22 years on this project, and we--that's not where we want to go.

That's not the sense of the Board from the last annual report, nor do I think it would be the sense of the Board going forward, so any further discussion? And I'll call for a vote of the members. All in favor, raise your hand.

Is it's unanimous. So with Mr. Leininger not being here, we'll tell him how he voted.

(Laughter)

CHAIRMAN DAILY: All right, thank you. Anything we need to move to right away after that?

MAJOR GENERAL WALSH: I think, Rich, you have three or four items to discuss, or--and we probably need to look at the next one. The Division had asked us, that they're going to look at the 10-year failure mode, and there's $96 million, roughly, you know, ten--I guess twenty million over the next five years to move that will have to come from someplace else. Rich asked the Board to help him figure out where to take that twenty million a year from, and so I think what's standing in front of the Board is do we agree that the 10-year failure mode is okay, and does the Board agree in some other mode other than this Board, perhaps a delegation, to work with the Division on is where those funds should come from is, I think, what's before the Board.

MR. KNOY: Mr. Chairman, Mark Knoy again. General, I think--I, I support us working with various Districts, Divisions to, to understand what all the potential opportunities of donor projects would be. Without having that knowledge, it would be pretty hard to sit here and support any one thing, but if we could work in detail at those levels, I'd be willing to be a part of that team to do that.

CHAIRMAN DAILY: I don't want the 180-page report, but I wouldn't mind seeing the executive summary on 52 and 53.

MR. HANCOCK: Yes, sir.

CHAIRMAN DAILY: And then again, I don't operate on the Ohio River very much at all, so I think that other people have much bigger stakes in that, so we will try and give you a task force of some members that could help provide some suggestions, but again, I think that's a little bit beyond the charter of the Users Board, but as experienced businessmen and as users of the system, we'd be happy to give you the best advice we can.

MR. HANCOCK: Okay, thank you; appreciate that.

A couple of the other key takeaways, we've already talked about the Olmsted benefits we think are compelling. Even looking at the scenarios where you pull out some of the assumptions that went into the $875 million calculation, that's just a takeaway.

The next bullet is the IWTF, of course, is not sustainable. Everybody recognizes that. I probably don't need to, to reemphasize that too much. The $380 million-per-year number is actually right out of that Capital Projects Business Model report that, that the industry and the

Corps jointly worked on. That, that's what we feel like the sustainable number is for reinvesting into our inland marine transportation system.

Of course, there are various ways to fix the, the current problem. You guys are talking about a possible infusion of cash into Olmsted. That would be one way to do it. Doing something with public-private partnerships is another way to do it.

Another way is if we could get a sustainable amount of cash flowing so that Olmsted isn't the only game in town so that we are investing in some of the rest of the portfolio, but these are all big questions. I just want to throw it out there as a critical thing that the Users Board, of course, could help us to solve.

MAJOR GENERAL WALSH: Let me look at again interpreting what, what I heard from the Divisions is last time and this time, we looked at different funding schemes, a four-year funding scheme and six-year funding scheme, moving money away from Olmsted and getting to the next level of, of construction, because we didn't know what that eight hundred million benefits were there, and I think we've shown that--that they are there, they're still official, we looked at the sensitivity, and even at the $400-million level, it's still the biggest and highest cost-benefit ratio in the, in the system, so I think what I see is do we agree that finishing Olmsted is compelling and should be the--and should be and remain the top priority of the inland marine transportation system? So that's up to the--up for the Board for your discussion or recommendation to the Secretary.

CHAIRMAN DAILY: Well, at the last meeting, we noticed some changes to the priorities. For instance, Chickamauga and Kentucky switched. I think some of the--obviously, it's dynamic, and I'm not talking about updating the PACR every year, but we do want to update the capital development priority list based on the factors that we used of risk failure, cost-benefit, cost-benefit to remaining project, and the rest of the factors that we had in that plan, and I don't know what the mechanism is if, if--I think, probably thankfully from her part, Jeanine [Jeanine Hoey, Pittsburgh District, U.S. Army Corps of Engineers] has moved on, but what is our status of keeping that work going, and how and what Division will be supporting that?

MR. HANCOCK: Sir, if I could try to answer that initially, I'll get to the long-term plan, but for the immediate plan, we went out and revalidated that number when we were looking at this, responding to this question. In fact, Mark Pointon sent out a data call to all the MSCs [Major Subordinate Commands] that were involved in the original list of priorities, and we revalidated, and that's what resulted in the shift of Kentucky and Chick [Chickamauga], but--but other than that, the priorities stayed the same, so it has just been revalidated, the priorities, except for that one anomaly stayed the same.

I don't know the answer to the longer-term question. I do agree with you, I think we need to go and update that on a periodic basis, whether it's yearly, or every two years or something, but we need to have a plan to do that.

MAJOR GENERAL WALSH: So does this Board agree to recommend that Olmsted remain its top priority, the IMTS's top priority?

MR. KNOY: I think, General--this is Mark at ACL--this goes back to what our proposal was in the capital development plan, and then Larry's question of how do we keep that plan fresh with, you know, all of the current numbers so we make sure the inputs that went into those decisions are reviewed periodically, but with information that we know today, it certainly appears to be the number one priority.

MAJOR GENERAL WALSH: And I think what Mark is looking at, what Rich just said, is that we will maintain the data, the information that goes into the capital, capital development plan even though--well, we'll just leave it at that, so we'll continue looking at that, and so at this point, and after last meeting, and this meeting, in looking at a bunch of different funding scenarios, it shows, at least to the, to the Division that Olmsted is still a top priority of the IMTS.

CHAIRMAN DAILY: Right, General, and again, I just want to point out that the, the Board members that served on that panel were only half of the members. We, we would want to hear again of any compelling reason to change. I mean, until we hear some reason to change it, our list of priorities remains the same, so getting together every couple of years or every year, however often we want to do that, and reviewing those numbers or even providing those numbers to the Board and making sure that they're all still valid because things change, priorities change, people build new plants or new, new levees, new flood regulations go in, there's all kinds of things that are--make this a flexible system.

So I think, though, that we will, as part of our annual report, will have to again designate our priorities, and that's, that's the minimum place that we'll put them.

Now, we'll be happy--I think that another part of a good discussion we might have with the Assistant Secretary and Mr. Salt, to educate us a little bit more on the politics inside the Administration, to--to help us be reasonable about making sure we're requesting things that are possible and not things that are impossible.

MR. KNOY: Mr. Chairman, Mark Knoy at ACL again. I just want to make sure in the motion that we just passed about raising the 902 limit, regardless of how it's funded or how it's completed, are we putting ourself in any kind of a trick bag by supporting the limit, we've now supported one method over the other?

MAJOR GENERAL WALSH: No.

MR. KNOY: Okay, so we're just saying we think the project should be finished, regardless of funding, regardless of the construction method?

MMAJOR GENERAL WALSH: (Nods head in affirmative manner).

MR. KNOY: All right.

MAJOR GENERAL WALSH: That's right, and I think that if we go to another slide--but let's not do it now--we'll ask the Board which, which direction you want to go.

In this regard, the Board recommended lifting the, the 902, and the Board is not going to take a position, at this point, on whether OMB--I'm sorry, Olmsted is a top priority or not.

CHAIRMAN DAILY: Well, Olmsted is--I'm sorry, Olmsted is our top priority until we change it.

MR. HANCOCK: Yeah, that's what the--you are saying that's what the report you developed says, and there's nothing since then that--that would have changed that.

MAJOR GENERAL WALSH: Right.

CHAIRMAN DAILY: There's been nothing from the Board that has changed that at this point.

MAJOR GENERAL WALSH: Great.

MR. HANCOCK: Okay. Um--

MAJOR GENRAL WALSH: Third item?

MR. HANCOCK: This item is talking about "in-the-wet" versus "in-the-dry" construction. I've already gone over this in some detail. I mean, the benefits of--

MAJOR GENERAL WALSH: Could you go back one? We didn't get that last--that second bullet on this page.

MR. HANCOCK: Oh, about needing to fix the IWTF as soon as possible so we have a sustainable funding stream?

CHAIRMAN DAILY: We agree to the motion. Again, I think that's what I addressed a little earlier. We agree with the goal, here, 100 percent. It's the method that we still need to work on. We have our method that we have currently approved that's in the Congress. We're working very hard with both houses of Congress; just, you know, it's a tough road, but we're not going to give up on it because basically, failure is unacceptable to us, so I think, again, our position on this is in the last Annual Report, and we will, as we deliberate the creation of the next annual report, we'll be reviewing this within the confines of the world in 2012. Go ahead.

MR. KNOY: Mr. Chairman, Mark Knoy again at ACL. It sounds like there's maybe just a little ambiguity in, in what we've said in our capital development plan that maybe we should try to clarify.

CHAIRMAN DAILY: Sure.

MR. KNOY: In our capital development plan, we talked about federalizing all dams going forward, and intuitively to us that are deeply involved in the Olmsted project, the

remaining portion of that project is the dam, and so what our, our position was is that Olmsted should be federalized because what's left is the dam. If we need to say that more clearly, that our, our position is that the remaining construction to do at Olmsted should be federalized in its entirety, I believe that's our position, Mr. Chairman, on that particular project.

CHAIRMAN DAILY: I believe you are correct, Mr. Knoy.

MAJOR GENERAL WALSH: And I think, perhaps, you'll wait until the annual report. I think highlighting that will be useful, perhaps, at the Secretary's office, as you've seen a reply to it last year, where we're, where we're going to go for, for this next year, so in that second bullet, I might suggest, as we've talked in the beginning, that this Board agree to put a delegation together to go talk to the Secretary's office, to further discussion of the capital development plan sometime in the future.

CHAIRMAN DAILY: I'll agree to do that, subject to Mr. Pointon making sure we're doing it the right way.

MR. HANCOCK: I guess I'll just throw it out, here, to make sure we have good discussion. Other components of, of your plan included changes to cost share agreements or levels and then increases to the fuel tax, so as you go into the discussion, I'm not sure if, if it's all or nothing or if there are components of that that you are willing to talk about and, and actually adopting as a, a good idea outside of the, the full package.

CHAIRMAN DAILY: Well, I don't think we want to negotiate against ourselves.

The other thing is that we did this in a sort of a vacuum with--without full Congressional, you know, information. We--we had members of, of Congress that were being briefed on the process, that supported the process. We've now taken a major step forward to actually have legislation that defines it, and that is currently progressing. It's just like any legislation in today's environment, it's got its challenges, but we've got bipartisan support in the House and in the Senate. It's--it's further along than it was, and again, you know, if they come back with something and say "Can you live with that," we're going to listen to them, but to sit here today and say "Well, let's make it 15 cents because nine cents isn't compelling" is useless to us.

MR. HANCOCK: Okay, thank you.

So are you ready to go to the next slide now? Okay. This slide talks about the “in-the-dry” versus “in-the-wet”. We've talked about this in pretty good detail already. I'll just quickly summarize. Benefits of “in-the-dry” are potentially saving a hundred, hundred-plus million dollars, the--and we're using a more traditional construction method, something we're more used to, cofferdams.

The potential drawbacks are it's going to add, potentially, two years to the project, certainly at least one year, one to two years, even if we infused more cash than $150 million a year for a short period of time.

So other considerations are, we're getting better at the “in-the-wet”. The first two seasons, we had record floods, and hopefully, we're not going to see a 500-year flood to the Lower Ohio River every year. I mean, you know, a couple of years in a row was enough for us, so we hope that we have a little bit of a calming of those type of situations. We've learned lessons, we've been measuring improvements to our efficiencies, and we have good reasons to believe that as we move across the river, the Nav Pass piece will get easier and, in fact, will we'll find more efficiencies.

So to me, that hundred million dollars is almost a wash, personally. If you are looking at a three-billion-dollar project, we're talking about three percent of the project. That's not a huge number, and when you are looking at the potential unknowns, like are we going to get a fix to the funding problem that allows us to award the contract, a new contract, either full funding or approval to use a continuing contracts clause, which we have neither of those right now, and then are we going to have a protest, what's going to be the cost for termination, what are the potentials for schedule slippages and we're going through that process, there are a lot of unknowns out there that I think eat away at that hundred million, and I'm getting more and more comfortable with the “in-the-wet” as we, we proceed, so our recommendation, LRD's recommendation, after all of our analysis, has been pointing us towards continue with the “in-the-wet”, and that's--that's our position, at this point. It's not a uniform Corps position yet because we're still in dialogue with Headquarters about that, but that's LRD's position.

VICE CHAIRMAN HENNESSEY: Rich, this is Mike Hennessey, Brownsville Marine.

The Corps, you guys are the experts. If you feel that this is the way you should go with this project, I think as a Board, we think it's--we concur if you are the experts, and we think you are.

MR. HANCOCK: Thank you. I appreciate that.

VICE CHAIRMAN HENNESSEY: Does anybody else on the Board have any different feeling on that?

MR. FARLEY: This is Jim Farley with Kirby. I don't think Rich is able to speak for the Corps, so I'm not--I hear you, but I'm not willing to go along with that, because Rich is not able to speak for the whole Corps.

CHAIRMAN DAILY: Well, again, I think—and the reason I brought this freight down with me was to point out several things: One, the exhaustive efforts that the Corps has done to study it; secondly, the fact that myself, and I've heard several other Board members admit that we're completely inadequate to make a decision on an engineering issue like this, but from a business point of view, as--as Mr. Knoy was pointing out earlier, we would look at both options as deeply as we could afford to without punishing the contract, punishing the project, and then we would make a risk-based, benefit-based decision, and yeah, a hundred million dollars is--originally, that would have been 15 percent of the Olmsted budget, but--and if my history is correct, we made the decision to go “in-the-wet” based on a smaller number than that back in 1997.

MR. SALT: That's right. That's right.

CHAIRMAN DAILY: So I think it deserves a look with the best engineering and, hopefully, some private sector input to make sure you've got it right. You know, the--the backside that it could take two more years to complete and the foregone benefits on that, those benefits are based on 52 and 53 having a problem. If you are going to spend $96 million fixing those anyway to get them to last the next two years, what's your degree of confidence in their reliability for not 20 years, but 12 years? So I think you have to look at that decision.

MR. SALT: Right.

CHAIRMAN DAILY: But again, gosh, I wish I knew what to tell you to do, but my recommendation is you do the best you can with what you got, and we will try our best to understand it and support you.

MR. HANCOCK: Okay, thank you.

And then this last bullet, the takeaway is just talking about the full funding option. I think everybody recognizes that would be the way to go. We would personally love to be able to dive into this headlong and find all of the efficiencies we can to, to having all the funding up front, but we do know it's going to save time, reduce risk because we're going to be reducing the time in the water, reduce the funding uncertainty, and then do some smart business decisions as we, you know, lock in prices for the current contract.

And by the way, I didn't talk about this much, but we are doing--most of the subcontracts through this cost contract are firm fixed price right now, so we've kind off reemphasized that, so we're controlling the cost very closely with this contractor, and--and we do think that he's doing a good job of that, so—

CHAIRMAN DAILY: I'll take another shot at it. This is Larry Daily.

I think what you've given us here is a target of what we want to ask Congress to plus-up your budget by when we take Olmsted federal, because obviously, if it--if you are paying for it yourself, you want to get it done. If you can take the, the ball and chain of the Trust Fund matching funds out of it, then why not finish it as quickly as you can, and get it done, and get the benefits going?

Any other discussion?

MR. NOBLE: Mr. Chairman, this is Scott Noble with Ingram Barge. Again, noting that there's a hundred million dollar savings, at this point, if the Corps' only concern were its own budget, obviously, they would go forward and do it “in-the-dry” because then they've got another hundred million to spend, so the reason we're in this position is because the beneficiaries, which are not the barge lines but it's our customers who would receive the benefits that far outweigh this, so I guess maybe it's appropriate to applaud the Corps in looking at it in the way that they

have, that it's--in this budget constrained environment, that your natural inclination wouldn't be to push forward and say "Let's do it “in-the-dry”, we could save money," but again, it's our customers that will be beneficiaries if you proceed as you've proposed.

MR. HANCOCK: I've gone way over my time already, so this is the--this is--if you guys have additional discussion, please--

MR. SOMALES: I don't know if the hundred million dollars is a good number. Mike Somales. I don't know if the hundred million dollars is a good number. There's--there's a lot of risk on the other side of losing that benefit with change to “in the dry”, with the problems you'd have to do with Congress and other things to get that done and terminating contracts, so while I agree with the gentleman from Ingram that our customers will benefit if the savings truly plays out, I'm not sure it's there, and so Mr. Hennessey's comment and Mr. Daily's comment, we're businessmen, and laymen in the ways of engineering, and we would actually hope that through good study, that the engineers involved here would recommend to us a way forward, a path forward, whether dry or wet. That's--that would fall into, I guess, you guys, your guys' area, "youse guys" or however you want to say.

(Laughter)

MR. HANCOCK: "All y'all."

MR. SOMALES: In Pittsburgh, it would be "you-uns."

MR. HANCOCK: Yeah, that's right.

Okay, any other discussion?

(No response)

MR. HANCOCK: Thank you.

MR. POINTON: Yeah, Rick stayed on schedule, all right.

(Laughter)

MR. POINTON: Can I request that we take a break now and try to reconvene in 15 minutes so we can try some semblance of getting back on the schedule?

Thank you.

(Recess.)

MR. POINTON: Can we take our seats, please, so we can reconvene the meeting? Thank you.

(Pause, as attendees take their seats.)

MR. POINTON: We'll reconvene on the agenda. Now, Jim Walker is going to talk about the Inland Marine Transportation System [IMTS] Levels of Service initiative. He'll give us a brief update. Thank you, Jim.

MR. JAMES E. WALKER, JR.: All right, thank you, Mark, and as it says, I'm Jim Walker, the Navigation Branch Chief in the Operations Office, there, in Headquarters, giving you a quick update on IMTS levels of service.

We'll start with just showing the mission. As a reminder, we've got our focus on the idea of movement of commerce being our central focus point. When it comes to the levels of service in the background, what we recognize is that what we're doing is unsustainable. We're driven by the fiscal year '12 budget reduction as far as it being a low- performing program. Our intent here, we're not looking at closing any locks but just adjusting the operating hours of service. Our goals, here, are to extend the life of the asset to reduce our expenses and to focus those savings on lock maintenance so that we can assure the continued maintenance and reliability of those navigation locks.

There's been a terminology issue that we've got to make sure we can clarify when it comes to talking about river systems, and they have a high, moderate, and low-use definition, based on ton-miles, so that the river systems, you'd have high, moderate, and low use.

When it comes to navigation locks and the levels of service, we're looking at individual navigation locks, and then that criteria is not ton-miles, it's the commercial lockages, with full-service being those locks that have greater than one thousand (1,000) commercial lockages per year, and then we have five levels of service for those locks that have less than that thousand commercial lockages per year, so the bottom line, here, is we can have low-use locks on high-use river systems.

Our process that we used was to evaluate both commercial and recreational lockage data on the individual locks. We determined that as far as a break point of those with a thousand commercial lockages per year, there were 54 navigation locks in our inventory that have less than that thousand commercial lockages, and they're located on 19 different river systems.

We then looked at establishing levels of service for less than that 24/7 operation, really looking at present practice across the IMTS, and then developing those as guidelines to be applied across the IMTS.

These are the levels of service. You'll see the six levels, full service being at level 1, 24 (hours per day) /7 (days a week) /365 (days per year). Levels 2 through 6 vary from two shifts, down to one shift, down to set times per day, a further restriction in the set times, maybe it's just weekends and holidays, and the lowest level being service by appointment, but again, I'd like to emphasize that there's none of this is a closure of a lock; it's simply a reduction in the hours of service.

Performance guidelines, you'll see, here, the six levels with the number of lockages associated with each of those levels of service, and it's taking into consideration both commercial and recreational. We think that this is a, a reasonable approach, a starting point to test and see where we are, where we looking to go.

Again, what we're looking to accomplish with the results as far as the reduced wear on our lock operating components, we look to reduce some of the lock operating expenses and then apply those savings to preventative maintenance so we can keep those locks operating longer. We may see that with the people that are operating the locks may become people that are helping do the preventive maintenance when the lock is not operating.

Our goal, here, is we feel like we can extend the service life of this aging, deteriorating infrastructure and to keep it operating and available to you for your commercial operations.

As far as an implementation schedule, the Operations Order Number 63 was issued on the 31st of July. Our schedule is that on the 1st of October, we are to have levels of service plans in Headquarters submitted by the various MSCs, the Division Commanders.

The week of the 1st through the 5th of October, we'll have internal--we'll have Congressional coordination, and on the 8th of October, we will be ready with those plans to formally inform stakeholders and the public.

There are provisions for an annual review of those levels of service, and also any exceptions to those level-of-service guidelines that are approved for fiscal year '12 will be looked at again for fiscal year '13.

The actual time frame for implementing these levels-of-service changes is staggered. The low-commercial-use river systems, we were looking to implement that in October. On the moderate-commercial-use river systems, the low-use locks on those systems we're looking to put into place no later than the 1st of January 2013, and the low-use locks on high-commercial-use systems being implemented by the 1st of April.

So in summary, we go about, again, keeping that focus on providing you navigation infrastructure that's reliable, efficient, and resilient so we can move American goods to compete in the global marketplace.

Subject to your questions, that concludes my update on this topic.

MR. HETTEL: Hey, Jim. Marty Hettel at AEP. Just so we can help you, or help ourselves get through these limited service hours, let me just put a hypothetical situation on you. You've got a lock that's closed for eight hours a day. In that capacity, say, 12 tows a day, or in that 12-hour, 16-hour period, if there'd a 13th tow there, would you make that tow sit for eight more hours, or would you go ahead and lock that to clear traffic and then go into your restricted hours?

MR. WALKER: Mr. Hettel--

MR. HETTEL: It would help us plan logistics when we know what that scenario is.

MR. WALKER: Our goal with this levels of service is to really provide both some guidelines but still leave flexibility at the district commander level or that supervisory level, so that we're not trying to make this a hard-and-fast, you know, no overtime. No, do we want to work with the users both in setting the schedules so we're capturing based on the data that we have, when those tows normally arrive and would lock through, so we're not necessarily trying to make this an 8:00-to-5:00 because it's convenient for our folks, we're going to look at when the tows traditionally would arrive as far as their travel time from the next lock upstream or whatever, so we would want to work with them.

The ability to work overtime is something that would be at that local level is my, my present thinking, so that we would try and do that.

Now, again, if we got into that where it was at that frequency of, of having to call the overtime, then maybe that would require another evaluation, but a spot on occasions doing something like that, I believe is within the purview of the, the local office there.

MR. FARLEY: Jim, this is Jim Farley with Kirby. The week of October the 1st through the 5th, Congressional integration, does that basically mean that's when you tell them what lock in their district is going to be impacted?

MR. WALKER: It's certainly already known what the locks--the target locks are certainly known, and we're getting lots of Congressional interest in that already. The big question now is will there be any exceptions to those guidelines or what those exceptions are likely to be, so it gives us an opportunity to inform the Congressional committees, any particular members that have voiced concern so that we can explain the rationale behind the decision in terms of what we're looking to--to do and, and move that forward.

You know, an important thing to think about with a thousand commercial lockages per year is that's only less than three a day, so we're really talking about locks that really aren't seeing the kind of traffic that's going to be leading to this, and so to, to--the thought of doing 24/7/365 for those types of facilities we think is really not optimal use of those constrained O&M dollars when we have such tremendous needs to do the maintenance on those locks, and this is really our chance to try and help explain and convey that.

I know that there's a lot of concern about killing regional economic development opportunities, and I don't think that we're there. I think that our system has--what we are proposing has the flexibilities to make adjustments, if new users come online and they're going to be creating additional load, then we've got the ability to readily adapt to those changes, no differently than if anybody stop using the system, but you know, if questions that have been poised to us as far as “You are coming out of a recession; things are just starting up; why are you looking at reducing service”, so it's an opportunity for us to take common messages points, and we'd be happy to share those with the users, as well, because the more people that understand what we're doing, why we're doing it, the better off we'll be in trying to, to keep someone from

misunderstanding what we're doing and maybe going on a legislative approach that would deny us the ability to try and--and do this management technique.

MR. FARLEY: I would certainly like to have any materials you have in that regard--

MR. WALKER: All right, sir.

MR. FARLEY: --with my takeaway.

MR. WALKER: I'll post that as a takeaway.

MR. SOMALES: Mike Somales. Two things. Number one, I guess as the second, latter part of your comment, I would--I would like to see the rivers open so that folks will build things. Currently, the idea is they're--in some areas, they're a little leery of the river because the system, itself, is going down.

I don't like the idea that we're talking about "Well, if the industry comes, we'll open up." I like the idea that it's there; industry should come.

But back to Marty's comment. Marty, we're already living with low-use rivers in Pittsburgh. The Allegheny River has been wound down, the Upper Mon has been wound down, and we make appointments to get in and out during business hours, like daylight or afternoon shift, and the true propensity to work overtime to accommodate being above the lock at later hours is not something the Corps wants to do. If you are above the lock when the time expires, you are above the lock until it opens in the morning. Any overtime dollars they spend, they want to take it from somewhere else, staying inside the constraints of their budget.

MR. WALKER: And then what we saw, sir, was certainly, the Allegheny was one of those areas where they had moved forward and begun to look at that reduced levels of service, and what we saw was an inconsistency across the country, so there were pockets of reduced hours of service, and this enables us to take a more systematic look at across the country and applying these guidelines so that it's done uniformly across the country.

MR. SOMALES: Mike Somales again. On the Allegheny River, the local Corps took dollars that we think should be for commercial traffic on the lower Allegheny, where all the commercial traffic is, and saved those dollars to have recreational lockage on upper locks at the, at the expense of commercial traffic on the Lower Allegheny.

I don't mean that to be an attack.

(Laughter)

MR. SOMALES: What I meant was that--that it was a pool of money available for lockages on the Allegheny River, and some of the dollars were held in reserve so that in the summer hours, recreational folks could have some locking in the upper locks, and it--it does fall to the expense of commercial locking on the Lower, because we do have to schedule, in-and-out,

an efficient schedule, and as I commented to Marty - in the earlier comment, if you are stuck above the lock, you are stuck above the lock.

That's all there is. Fair enough?

MR. WALKER: Yes.

MAJOR GENERAL WALSH: And I think that goes to, one, you can only do less with less, you can't do more with less, and as we have less funding, we've got to make some decisions, and certainly, it could have been a hard-and-fast rule that--that I could have made, or it could have been "Here's some left and right parameters, work with your local, with your local constituency on making that happen."

At the same time, if we--you know, if there's something above the lock, you know, can the local district work that? Maybe, maybe not. You need to work with local district, or if there's the biggest, I don't know, bass fishing tournament in the history of the world and they need some recreational dollars to work that through, well, it's called levels of service for--because it is a service.

MR. SOMALES: You know, again, Pittsburgh, understanding that the Allegheny River is a low-use lock, but there is industry up through the first four locks. Specifically, there's a utility up there using a couple of million tons of coal, and so, you know, you have to make the best--when you are putting the pricing in to get that product into that, you have to use as much fact as you, as you possibly can, and it's difficult.

MR. POINTON: Next, Jim Walker will continue on impacts of low water on the inland marine transportation system which, of course, is changing momentarily, seconds, every day.

MR. WALKER: Maybe I can report the good news that the rain is coming, right? All right, it's some incredible stories have been brought up before. To go from the great flood of 2011 to the great drought of 2012, records on high, so if you average the two out, you add them up, divide by two, we've had an average year the last two years. That's what the mathematicians will tell you.

The USACE actions as far as the drought goes is that we've developed, under General Walsh's leadership, a common operating picture, and this was the fact that we had five divisions being affected by the drought, and those are all interconnected as far as these different tributaries, rivers that come together ultimately into the Mississippi, and how that can enter into the equation of being able to communicate and understand what's going on across the country.

As far as water management tools, we've had a number of things that are available to us, tools in the toolbox. Our water control manuals are the first thing that we already have on the shelf and being able to apply. We have low water action plans. There are issues as far as reservoir releases, water releases. We're--we had to then get into keeping the public informed, the users informed as far as our stream gauges, dredge locations, groundings, channel availability, um--and the common operating picture, what we've, we've tried to do is come up

with a graphical means of depicting the current conditions so that there's a quick ability to grasp what's taking place.

In this particular one, you are seeing the grounding incidents as far as keeping track of those and where they're taking place. A lot of folks have been interested in whether there--the system is going to be available, whether there's--the river is closed.

There's a propensity within the press to seek sensationalism on the idea that the river is closed, and we're having to explain that you have a grounding, but that's a short-term operation in terms of getting that off of ground and back, freed up, and so those are generally of very short-duration periods when you are unable to pass at specific locations on a system that's hundreds, if not thousands of miles long, so we're tracking these and keeping this information shared with the folks.

Similarly, we keep track of the dredging operations, where the dredges are located, both Corps dredges and contract dredges, keeping our talking points as far as being able to explain, with a common communication theme, what's taking place there.

For me, the stakeholder communication, we've had a number of those, each of these more on a regional approach to a specific watershed. You've got the River Industry Executive Task Force, and then it's subset as far as the river industry, which I remember as River Industry Action Committee, but the working group, in coordination with the conference calls on Upper and Lower Mississippi, the Ohio, the Missouri, you see them listed there. These are including the Corps, the Coast Guard, navigation industry and NOAA, so there's a--there's a great deal of communication going on.

Most folks will want to draw a comparison from 1988 and its drought, where the Mississippi River was actually closed for a two-week period, to what's currently going on, and I think probably one of biggest takeaways is the communication that's taking place in this event is really one of the big things making the difference.

For the uppermost levels in government, the White House has its Rural Council which is overseeing the drought support, the federal response to the drought. It is chaired by the Secretary of Agriculture. They have expressed an interest as far as us reporting regularly what's taking place with the navigation program of the Corps of Engineers. Their interest is in looking at the agricultural product transportation. There was concern about whether they're going to be able to get goods to market, but in addition to the ability to transport the product, we're looking at providing them information as far as channel availability, the dredging of the groundings.

Along with that, there's been considerable interest in the water supply issue with the Mississippi River saltwater barrier that was being constructed to try and keep the saltwater from intruding into water supply for the City of New Orleans and cities upstream of that.

Explaining the impacts to the navigation industry, we go about explaining that the--that there is this increased cost as far as the smaller tow size, the shallower draft of the vessels. We're explaining that increased navigation risk of a constrained channel, the tighter bends. We're

explaining the river ports in terms of there's the main river but there's also the ports, and that's been a--one of the, the key components of the concerns that are out there, is that they're hearing about things being closed, and many times, that's an access channel to a local port, and we are still working with those, as well, but that's--it's not the main channel.

Um--and the thing I wanted to highlight on this slide is that we are--our Institute for Water Resources, we are going through getting established a task order to be able to contact the shippers and carriers to discuss the economic impacts of the drought so that we can try and capture some of this information and be able to use this as explaining our value to the nation.

Probably this is one of the greatest opportunities that has come out of this drought is being able to explain what inland transportation is, and does, and means to the public that generally doesn't see these things or understand them.

As far as an assessment of what's taking place, I think it's just been exemplary coordination, collaboration, and communication. I think that the, the users have done an excellent job in their self-restriction on tow sizes and drafts so that they're not trying to push something down where the, the channel isn't going to be capable of accommodating.

I believe the Corps and the Coast Guard have done well with their response both in dredging and the navigation aids. I understand the giant challenge the Coast Guard has in that regard, and in my assessments, here, the--the media, there's been good coverage.

It's our opportunity to provide these explanations and, again, demonstrate this value to the nation, so I think there's been good use of that, the coverage that I've seen while they're still trying to make the most that the river is going to close or that search for sensationalism, but by and large, they're presenting this case as to what inland transportation means to the public.

Those slides that I showed you earlier are now part of a USACE drought webpage that's been created for public information. You see, there, the address. I can get that to you, if you want, afterwards as far as sharing that website address.

I've got to check on Google to see what you've got to do so you don't have to remember all this long chain, but I've got a feeling if it was “USACE drought response” or something, that it's going to come up and give you this web connection.

In addition to Corps of Engineers information, it has good links to the Coast Guard, to FEMA, and the Department of Agriculture websites, and subject to your questions, that concludes my update.

MR. KNOY: Jim, Mark Knoy of ACL. I've got a question on the mat-laying units. How far out is that planned? We've just seen that exacerbates a little bit of the, you know, the low water because we have a lot of channel obstructions, one-way traffic being impeded because of mat-laying units as much as the drought, if you will.

MR. WALKER: Oh, okay.

MR. KNOY: So how far out is that? It's something that I don't know that we've really engaged in before, and what's the flexibility of that, et cetera? Just as we learn from '88, maybe it will be something we'll learn from this one. What's the flexibility of the mat-laying units.

MR. WALKER: I'd--I'll have to, to check on that as far as the--my knowledge--

MAJOR GENERAL WALSH: The--

MR. WALKER: --of that--

MAJOR GENERAL WALSH: The--they're--

MR. WALKER: --from the Headquarters.

MAJOR GENERAL WALSH: The discussions are out at least six months prior to the, to the start, and certainly, with the 2011 emergency supplemental, it was a--it was a lot of funds in that to get that mat-laying done, but it's at least six months out, and Eddie's [Edward Belk, Director of Programs, USACE Mississippi Valley Division] got more precision than that.

MR. EDWARD BELK: (Inaudible).

(Microphone is turned on)

MR. BELK: Thank you. As--Eddie Belk, Mississippi Valley Division. As General Walsh described, we are focusing our revetment operations on repairs as a result of the flood of 2011. Right now, our operations will continue through February. That's very unusual. Usually, operations complete sometime before Thanksgiving. Because of the nature of the damages that we need to get after before the next flood season, we will be out till February.

Now, in terms of longer-term, we--we have a five-year plan that we have for revetment. It changes every year based upon what the river tells us, but we can look out five years and know what the size of our program is and about how long we'll be out, and I don't know if that responds to your exact question, but we do have a longer-range outlook.

MR. KNOY: That--that's a good part of it, but then what is the flexibility of, in these changing, ever-changing conditions when we have river levels this low, the mat-laying units become an obstacle to navigation, as well. With higher levels, we don't really have an issue with it. What's the flexibility that we could expect going forward?

MR. BELK: You know, we, as we execute operations on the river, we are--try to remain very flexible to account for and accommodate traffic, because we have the same interest you do.

With regard to the work sites and work locations, not as much flexibility because as you move downstream, it costs more money to skip one and come back to it, so we kind of work within that framework, but you know, we have the same interest you do, to make sure that we pass navigation while we do the protection works we need for, for other purposes.

MR. WALKER: One suggestion I might could offer would be to make that schedule of the work locations known so that we can improve that communication there. Subject to questions?

MR. POINTON: Anymore questions for Jim?

(No response)

MR. POINTON: We're going to pause for a second, here, before Jim Hannon steps up.

Jon Soderberg has gotten some answers to some questions that Mark Knoy asked about Emsworth and the projections for the Inland Waterways Trust Fund, so Jon, could you answer those, please?

MR. SODERBERG: Thank you. Jon Soderberg again, Corps Headquarters.

Mr. Knoy, you had asked about the projections on the Trust Fund. The--we're projecting, or Treasury is projecting, optimistic, $85 million for this fiscal year, with two remaining deposits in September totaling approximately $8.2 million, which would be about the same deposits for August.

There was a correction. The deposits were a little less than projected, about a million, so that's why we're in that potential 84-, 85-million-dollar range.

You had also asked about Emsworth and what was left. On the Emsworth slide, the remaining balance of $6.7 million would come from the Trust Fund over the next two years. It still would not get Emsworth back into a 50-50 but should complete the project.

MR. KNOY: Thank you.

MR. POINTON: Next up is Mr. Jim Hannon, and he will give us a brief update on the Corps of Engineers' Infrastructure Strategy, which members received a copy of our internal report on their desk this morning. Jim?

MR. JAMES R. HANNON: Good afternoon. It's a pleasure being here, and a number of you I know, rekindle relationships. Some I'm just meeting today, look forward to developing relationships.

I am the Chief of Operations and Regulatory for Headquarters USACE. Official date, I guess, is the 23rd of September, but starting the transition with Rich Lockwood as of last Monday, been in headquarters a week. Somehow, I contracted a head cold, but since this is on the record, I won't go there.

I don't have any slides today, but I do want to talk just very briefly about our USACE Infrastructure Strategy, and as General Walsh pointed out in his opening comments and as you've heard in the past, it is one of the four pillars of our Civil Works transformation.

You do have, and I think Mark has handed out to the Board a copy of a document, and it is a draft document, and it's titled “Towards a Sustainable Water Resource Infrastructure System”, and it gets into some of the details of things that we've been looking at, and we've been looking at it kind of internally over the past few months, you know, and we just need some input from our various stakeholders and partners, so we would ask you to take this back, look at it, digest it, chew on it, spit out some bones, whatever, and certainly, you can get back with me, at least, and give me some of your thoughts and comments, but we do believe that our infrastructure strategy will lay that strategic foundation for our long-term sustainability of our Civil Works infrastructure for the, for the nation and for the future, and there are some key elements to that infrastructure strategy, some of them that you are familiar with.

Asset management is one of the elements to our USACE infrastructure strategy. We've been working that for the past few years. You know, it's been a part of what has informed the Capital Projects Business Model as far as OCAs, condition assessments, and risk assessments, but some areas of this strategy you may not be as familiar with as we continue to move this forward, and that's in the area of an infrastructure portfolio management; alternative financing; certainly, a systems watershed thinking versus a collection of projects or a project-by-project basis, and what does our infrastructure bring as far as value to the nation and how are we capturing that, and all of this, you know, rolled together from an integrated water resource management perspective, informing the budget as part of the budget modernization piece of our Civil Works transformation.

So if you think about this, you think about, you know, what would an end state look like as we look forward and look out to the future of the strategy for our infrastructure. It would be an efficient and effective sustainable civil works infrastructure that's aligned with our national priorities and needs, and it clearly provides a recognizable value to the nation.

Now, that's just my thoughts on that right now, so I mean what would be that, you know, end state from a user's perspective.

So just kind of teeing that up and giving you a snapshot of that, where are we right now as far as the next phases? You know, we're in what we're calling a developmental phase right now, and we have--you heard the term "op orders," and we're working an op order, you know, internally that's going to focus on this, you know, looking at the life cycle of portfolio management and the alternative financing piece of the next steps of our USACE infrastructure, and within that life cycle portfolio, finding that management piece, we're looking at a portfolio analysis, and very simply, part of that is an inventory--excuse me, an inventory of all of our infrastructure, you know, not just our navigation, but all of the infrastructure in the Corps, you know, looking at the identified and identifying what is the authorized purpose of that infrastructure, you know, as we go through an inventory, and we look at those authorized purposes and what may have changed, you know. Some of this, certainly, we all know is 50, 60 years old and older. What may have changed over the years, and is it--is there some new purposes in there with that original authorized purpose? Is it still being used as the same authorized purpose?

What's the value to the nation that it's bringing right now? We're looking to be able to identify and actually, you know, put some check marks and tags on that.

How do we look at this from understanding the interdependence of that particular piece of infrastructure with other systems, other infrastructure, other projects that are in that system, and what's that interdependency between them?

So we're starting this portfolio analysis, or will be very soon, within the districts and then the regions, to be kind of collecting that data and that information, and along with that, we're going to be looking at the alternative financing piece of this, you know, looking at what are potential alternative financing mechanisms that might be out there, and it may require a policy change, it may require a legislative change, and you know, that's the key, is, you know, we're--how are we doing it now, what are the potential that's out there, and there's been some discussion even today, when we talk about public-private partnerships, and we talk about other beneficiaries to the navigation system and being able to tag and identify that and looking at what kind of changes might be needed so that we can begin to identify how do we begin to work that, you know, collectively to provide more opportunities to provide value to the nation, so I kind of lay this out for you and it's--I know it's very quick, but what I'm soliciting here is, you know, input and participation with our districts, with our divisions as, you know, you and the area that you are working in, to help build this portfolio.

To look at these, you know, ways and authorizations, you know, new purposes, you know, new thoughts about alternative financing, work with the Districts, work with the Divisions, provide input to us on your thoughts on that, and certainly, we can figure out how to bring this back, you know, before this Board, and--and that would be the other question I would ask you; what parts of this Board play in this? You know, what role might you have in looking at this and helping to define, you know, these USACE infrastructure strategy and the direction that we go in this, you know, as we move toward this sustainable solution that you'll see in, you know, kind of laid out in this draft document, here, so just kind of want to tee it up, just want to plant a little bit of a seed right now and give you some thought, things to think about.

Please, take that, look at it, share it with others. You know, again, provide comment back to me. I have some business cards. They're still old, but the name and the e-mail is the same, and the cell phone is the same, and if you guys knew Mike Ensch's number, you'll know how to get a hold of me as far as a work number is concerned, so I'm proud to be here, open to any questions that you might have now, certainly open to any questions you would have in the future, and look forward to working with each and every one of you.

MR. POINTON: Any comments for Mr. Hannon?

(No response)

MR. POINTON: Thanks, Jim.

Next up is Eddie Belk. He'll be talking about the outlook on the Upper Miss and the Illinois Waterway for rehabs with limited Inland Waterways Trust Fund dollars available. Being

he's the last up, he's assured me he's going to get us back on schedule, so everybody, don't worry about your flights; you'll catch 'em.

MR. BELK: Okay, great. Somebody got my-- I'm responsible. That's a bad deal if I'm responsible; may need some help. Well, first--

(Unidentified individual: Inaudible.)

MR. BELK: Yeah, I may need more than that.

(Pause, to turn on view screen.)

I just hit this? All right.

Thanks, Mark, and good afternoon. It's great to be in St. Louis.

Mr. Chairman, it's a real privilege to be able to address the Users Board today. I'm Eddie Belk. I'm the Director of Programs for the Mississippi Valley Division in Vicksburg, Mississippi. Colonel Hall welcomed everybody to the St. Louis District and on behalf of my commander, Major General John Peabody, I would also add his welcome to the Mississippi Valley Region and really pleased that you are here. He is engaged in Louisiana, and Mississippi, and the Greater New Orleans area today, dealing with all the stuff you've seen on the news with Hurricane Isaac, so he sends his--his regrets.

What I'm here to do today is give you a quick update on the Upper Mississippi River and Illinois Waterway systems. Mr. Pointon just provided you some handouts that you can have, and this will be an information brief, no decision necessary. Next slide.

The Mississippi Valley--I guess that means me.

(Laughter)

MR. BELK: It's good to know.

Of course, the Mississippi Valley Region, we, in our area of responsibility, have responsibility for the main stem Mississippi River from Lake Itasca down to the Gulf, and what that means in practical terms for navigation is we have not only the main stem but some of the main, bigger, more significant tributaries to the Mississippi, such as the Illinois, the Red, Ouachita, Black, among others.

You see on the slide our locks and dams on the Upper Mississippi and Illinois waterways. We have 37 locks and dams, of which 34 are single chamber, and so that's important, because that does increase your risks as you deal with potential outages with the single, single-chamber system. Now, what this map depicts on the right is our operational condition assessment of each of the components that comprise those locks and dams, and you see a red, green, amber, and

orange rating scale that indicates the, basically, the conditions of that infrastructure as of this assessment in 2010.

Now, of the 37 locks and dams that you see on this map dispersed on the Upper Miss and Illinois systems, 15 of those, or 41 percent, are either in a failed, failing, or inadequate condition or components are in that condition as of 2010. Now, the challenge this presents is it all gets back to, from a business standpoint from the world you live in, it's about dependability, reliability, predictability, and so as, as these components move into the orange and red categories, we start to have challenges with that dependability because of risks of stuff breaking down.

Next slide. Oh, that's me again. Okay. This shows a couple of things. This reflects the funding trends that we've had, rehabilitation funding trends on the Upper Mississippi and Illinois systems. In terms of normal appropriations, you'll see in FY-06 to FY-09 we averaged about $30 million a year that we were able to invest in rehabilitations. That's the light blue stuff. The dark blue you see are the American Recovery and Reinvestment Act funding that we received that, that year, some $150 million that we were able to invest in the Upper Mississippi and Illinois systems during that, during that time frame. As a result of those investments, we've--we have been able to apply those funds to complete rehabs at Locks 3, 11, 27, and at--substantially complete repairs at Lockport.

You can see also on this chart in terms of our regular investment levels, we sort of hit a hard stop in FY-09, and the only funding we've had to apply since '09 have been the stimulus funding, that $150 million, and that reflects the timing of the Inland Waterways Trust Fund, the demands exceeding the requirements, and so that situation is still with us, and the Upper Miss and Illinois waterway investment levels are not keeping up with the requirements as a result of the need to divert those funds to higher priorities nationally, Olmsted, you've heard some of those that Rich Hancock laid out to you earlier, so again, we see the potential with this kind of an investment stream of additional unreliability in our system as we continue to operate it absent major rehabs.

This kind of gets at the real challenge we all face, and I think you've seen this, this chart before from the capital improvements business model, and right now, our top priority on the Upper Miss for rehab is LaGrange, and we're talking in the 57-million-dollar range, and at this point, based on cash flows that we're seeing, it will be after 2023 under the current construct before we're able to get after that particular, that particular piece.

Again, just showing the, the trends in outages at locks and dams nationally, this is not an MVD [Mississippi Valley Division] slide, this is a national slide, and you can see that unscheduled mechanical breakdowns continue to grow and continue to be a challenge, and again, this is all a function of investment or lack of investment to buy down some of those, some of those risks.

Of course, you see a few, a few items of what our team sees every day at parts and pieces of our system on the Upper Miss and Illinois. 23 of the 29 locks on the Upper Miss are over 70 years old, and all of the Illinois locks are over 50 years old, five of them celebrating their 80th

birthday this year, and so significant investment challenge to get our system to a point where we've bought down risk and can provide the dependability and reliability that we all need for this nation's commerce.

That's kind of is a quick overview of the Upper Miss. I'm going to transition to a couple of other topics that I think are important that I'd like to address.

The first is, this is a, a piece that we've used with the Mississippi River Commission in hearings over the last probably nine months. It's a piece from Dr. George Friedman. He is founder of a service called Stratfor, and he puts out a newsletter every month, and this guy thinks in geopolitical terms. He kind of looks at the world from that particular lens.

He looks into the future and predicts trends and what not, and he had a piece last summer called "The Inevitable Empire," the United States, the inevitable empire, and the premise of his piece, based on his research, was that the physical realities that exist in the United States caused it to be--would cause it to be an empire inevitably under almost any condition, and he says there's two reasons for that.

One is the inland navigation system that this nation enjoys that is superior to any other in the world, and in fact, he says that the navigable-- our navigable system is greater in terms of miles and product moved than all the rest of the navigation systems in the world combined; that natural navigability, combined with the fact that in North America, it literally is the greatest agriculturally productive area in terms of volume in, in the world.

You've got, you know, the middle part of our country, you've got the Eurasian steppes, which is significantly productive, but what you have, there, is an inability to get those products to market. You have crops that literally rot in the fields because you cannot move materials and product to market in a timely way because they don't have the navigation infrastructure or other infrastructure to do so, and you see similar challenges in India and in, in Asia, eastern Asia.

So the other piece is, of course, as General Walsh has reminded us many times, we are, we—the Mississippi River watershed is the third largest watershed in the world, and the other two major watersheds, the Amazon and the Nile or, check, the Amazon and the Congo, do not have the agricultural productivity in that basin for lots of reasons, climate, soil conditions, as we do in the United States, so that combination of a navigable, navigable system that overlays agricultural and mineral wealth beneath the ground and the ability to move that wealth within the country nationally is what separates this country and makes it great, and this gentleman, this Dr. Friedman, says that is what causes and that is the basis for our success strategically as a country; very, very interesting, and the key piece is, we are a maritime nation. That's the--he doesn't say it that way, but that's the implication, we are a maritime nation. You can't get all this stuff to market without a maritime capacity, and so that's why all of this stuff that we've talked about today is important.

And the last slide I have is a product that I'd like to make you aware of, you know. We've been battling the drought, as you just heard from Mr. Walker, for the last couple of months. We've had weekly meetings and teleconferences with the River Industry Executive

Task Force, and of course, Mr. Noble was with us last week when we met aboard the *Motor Vessel MISSISSIPPI*, moving downstream on the Mississippi, and we presented this product to the Board--to that group, and they liked it and asked that we hang it out on your our website so that people could get to it, and we have done so, and we've got the address here.

This thing shows on the Lower and Middle Mississippi, the open river main channel crossing conditions and controlling depths at, at the time, you know, on each day. It shows the harbor conditions, the controlling depth at each of the harbors on the middle and lower river, dredge locations and dispersion across the region, and it also shows groundings over the last seven days.

You see all this on this one snapshot, and while we've had challenges with the low river, and while you had challenges with the low river, we continue to deliver the navigation authority that we have on the, on the Middle and Lower Mississippi, and because of the significant investment that we've had since 19—since the '88 drought, we continue to be able to do so as a result of those investments, so I wanted to make you aware of this product, and this concludes my presentation, and I'd be glad to entertain any questions.

MR. KNOY: Eddie, Mark Knoy at ACL. I've got a question on page 2. When you just talk about the various--you have a term for it here, OCA, the Operational Condition Assessment. Is that the same criteria that we used with the Corps over the development of the capital development plan, or is it a different criteria? Yeah, Jim, you were involved in all those.

MR. WALKER: Yes. This is Jim Walker. When we were developing the Capital Projects Business Model, it was about the same time we were putting together that Operational Condition Assessment. The actual list that's in the Capital Projects Business Model was not able to take advantage of those condition assessments. They were both taking place simultaneously, so the final product in the Capital Projects Business Model does not include the results of the Operational Condition Assessment. In our subsequent upgrade, I think we'll be able to take advantage of that.

MR. KNOY: What do you think the delta is, Jim, between the two reports, the condition assessments that we put or the criteria that we put in place in the capital development plan versus these?

MR. WALKER: I think that--that what we found was that, you know, when we did the Capital Projects Business Model, it was the engineering knowledge of the projects that were out there based on the engineers and the operations people that worked those, so there were very few surprises as far as the condition assessment that we conducted versus what we knew as problems, but there were some surprises, and so it goes back to--I think it could alter some of the rankings of those rehabs.

If you look at the Capital Projects Business Model, it included 19 major rehabilitations being proposed over the 20-year period. There could be some changes in the priorities based on the results of the condition assessments but we didn't see that the actual--the 19 didn't see a significant change as far as the numbers, there, but maybe just some changes in the priorities.

MAJOR GENERAL WALSH: Thank you, Eddie, and--and you did a good job in reminding us that the priority list for funding is about 30 or 35 that are on a list out of 240 locks and dams that need to be in the maintenance system, so that capital development plan underlines, highlights that what we're doing is not sustainable.

By the time we--by the time we get those items that are in the priority list, there's another 150 that hadn't been, hadn't been addressed, and that's what Eddie, Eddie's key point, there, was, the Upper Miss, and the Illinois, Lower Miss, and other areas are just not going to be getting any funds for 20, 30, 40 years, so the process we're on is just, is just not sustainable, so thank you for that presentation.

MR. POINTON: Any other questions for Eddie?

Go ahead, Scott.

MR. NOBLE: This is Scott Noble. For Eddie, I want to thank him and the Corps for quickly responding and putting this home page out. When we saw it, it just had all the kind of information that we all were looking for. I note that it's coming out, I think, updated three days a week. Obviously, as critical as some of this is, if it could be almost real time, and I think, in fact, General Peabody is pushing them in that direction.

And then just a minor point; I've tried to bring it up right now, and I find that the boxes on the left are not populating, and I don't know if it's a matter of, of my, my particular device or not, but anyway, I want to thank the Corps again for coming back with that so quickly.

MR. POINTON: Eddie did a good job, got us pretty much back on time.

The next item is the public comment period.

Chairman Daily and I have gotten no indication from anybody that they wish to speak publicly. This is the opportunity to do that, so it's going to close real fast. Here's your chance.

(No response)

MR. POINTON: Okay, seeing no one wishing to speak publicly, we will move on to the closing comments and the wrap-up by Chairman Daily and General Walsh.

CHAIRMAN DAILY: Sure. Larry Daily here. I think of we've covered a lot of ground. I hope we've provided some direction that we were asked to provide after the last meeting. I think in my own parochial interest, the last presentation was one of the most hard-hitting for us. We spent twenty years studying the Upper Mississippi and Illinois Navigation Study and came up with a plan that got approved in a Chief's report and in a WRDA in 2007. We've gotten a little bit of pre-engineering and design money. That's now been cut off, and when I see this report with these new conditions in it that show Locks and Dams 21, 22, 24 in terrible condition, we know Lock 18 is in terrible condition, LaGrange is in terrible condition. A big part of the

benefits for doing the lock extensions on the Upper Miss and Illinois were avoiding these rehabilitation projects. If we're going to delay these projects so long that we have to do an additional rehabilitation, that's another 25, to 40, to who knows how many million dollars that we wouldn't have to do if we could just go right into the extension and renovation of the projects, so just adds some additional emphasis to us that this is important, and it hits home everywhere we go, and we need to get something done. Thank you.

MAJOR GENERAL WALSH: Thank you, Mr. Chairman, and this is my second time as the Executive Director for the Inland Waterway Users Board, so every chance I do this, I learn a lot, and we'll adjust the next time as we have our, we have our next meeting.

I think it's very interesting and, and essential work that the Board does in support of, of this maritime nation, and you heard Eddie talk about why the Center Coast is so important in regards to getting crop out to the--out to the world, and certainly, we see that, as well, from coal and other, and other areas.

I think having an opportunity for the Board to make recommendations to the Army is a, is a grave responsibility, and I know your decisions and recommendations are, are highly sought after from, from the Army's perspective.

As I mentioned, I spent four years in, in Vicksburg and learned how to, to say "NASCAR" and watch NASCAR, and one of the things that I learned there is, you win in the turns, and so what I read in business, as well, is you win, you win in the turns.

We're in a global economic malaise, and we have been for a number of years. There are some countries that are out there that are investing in their transportation infrastructure during this, during this global malaise. Certainly, the Brazilians are, the Chinese are, and other countries are putting funds into their infrastructure, and when the globe comes out of this economic malaise, there will be some countries that are going to be moving forward in these turns, and so I would just get back to my previous comments, the--the path we're on is not sustainable. There are folks gaining in the, in the turns, and what we do when we make our recommendations is important to this, to this maritime nation, and I'm proud to be a member of, of this Board, and I appreciate all the time and effort that LRD and other Mississippi Valley Division and others put into, put forward in putting all these products together, and the time and effort of all the members of the Board as Mr. Daily had to carry those 25 pounds of stuff down here, and I think it was what, ten dollars a ton for moving on the river, so we'll see where that goes.

(Laughter)

MAJOR GENERAL WALSH: So thank you for all of your time, and I'll turn it back over to Mr. Pointon.

MR. SOMALES: Before you go, before you go, I think that's the railroad that's $10 a ton. I think we're two bucks.

(Laughter)

MR. POINTON: Before we adjourn, anymore comments from the federal observers for or from the members?

(No response)

MR. POINTON: Seeing and hearing none, this meeting is hereby adjourned. Thank you for coming.

(Whereupon, at 12:54 P.M., the proceedings were concluded.)

State of Missouri.)
) SS.
City of St. Louis)

I, J. Bryan Jordan, a Notary Public in and for the State of Missouri, duly commissioned, qualified and authorized to administer oaths and to certify to depositions, do hereby certify that pursuant I was attended at the Sheraton St. Louis City Center Hotel in the City of St. Louis, State of Missouri, for the 67th Meeting of the Inland Waterways Users Board on the 29th day of August, 2012, said proceedings being by me reported in shorthand and caused to be transcribed into typewriting, and that the foregoing pages are a full, true, correct and complete transcript of same.

Witness my hand and seal at St. Louis, Missouri, this 10th day of September, 2012.

J. Bryan Jordan
Certified Court Reporter
State of Missouri No. 532

COURT MEMO

Inland Waterways Users Conference

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