

“Funding and Fixing Our Waterways to Ensure Economic Competitiveness”

U.S. Chamber Of Commerce Transportation Infrastructure Summit

Remarks by Nick Akins, AEP President and CEO
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Introduction

- Thank you, Norm, for that introduction.
- Let me also thank Chairman Shuster for his remarks this morning and his leadership. I look forward to working with him and our allies in Congress.
- Also, I want to thank the Chamber for the opportunity to speak at your first transportation infrastructure summit on an issue that I feel passionate about – the importance of waterways transportation and the sad shape of the locks and dams along our inland waterways system.

The Situation

- The current situation with our waterways infrastructure is dire. I'm optimistic things can improve, but we will need significant support to make waterways improvements a priority and secure the necessary resources. Our country's economic competitiveness depends on it.
- Our nation is blessed with many wonderful ports and a vast waterways network that facilitates commerce within and outside our borders.

- We are also blessed with a group of dedicated and talented individuals within the Army Corps of Engineers who do great work given the resources they are provided. Unfortunately, they don't get the resources that they need to effectively maintain these critical means of transportation.
- In their prime, our nation's ports and our inland waterways system were the envy of the world. But not enough has been done to maintain and update that infrastructure as it has aged, which brings us to where we are today.
- Out of the 240 locks in our inland waterways system, more than half have exceeded their design life of 50 years. In fact, more than 30 of our locks were built in the 1800s.
- So, the most cost-effective delivery system we have – the one that transports the raw materials that enable us to compete in the global marketplace – is very old and quickly becoming obsolete.
- What are the ramifications?
- In 2009, unscheduled delays were experienced on about 90 percent of the locks and dams along the waterways system.
- These waterways transport cargo worth more than \$150 billion dollars every year, including more than half of our nation's crude petroleum.
- Data from the Corps of Engineers indicates that about 47 percent of all main or auxiliary locks on the Ohio River will be in poor to failing condition by 2016. Repairs are currently done on a "fix as fails" basis, and the probability that a particular lock will fail grows each year.

- Funding to fix the problems is inadequate. The Corps of Engineers has prioritized the numerous issues that must be addressed but doesn't have adequate funding to fix the priorities.
- For example, the Olmsted Lock on the Ohio River is a critical project and is soaking up virtually all of the congressional and trust fund dollars available for locks and dams today, and will continue to do so at least through the end of the decade.
- The Olmsted project was authorized in 1988, with a projected cost of \$775 million and a completion date of 2000. Today, the project is less than half-way completed with a projected in-service date beyond 2020 and an estimated cost four times the original estimate.
- Regrettably, given the limited amount of money appropriated and otherwise available for lock and dam projects each year, other critical projects are under-funded or not funded at all.
- Exacerbating the situation, is the fact that Congress and the Administration also continue to systematically underfund operating and maintenance for the waterways system.
- This approach depletes the industry-funded Inland Waterways Trust Fund, which is dedicated to badly needed remediation and construction.
- Sadly, this situation is not unique. Historically, the larger U.S. harbors also have been under-maintained, even though the Harbor Maintenance Trust Fund had a large surplus.
- The situation will become more serious around 2015 when the Panama Canal is expanded and larger cargo ships begin deliveries to the United States.

Why We Care

- So why does this matter?
- As the head of one of the largest electric utilities in the country – along with owning and operating the second largest inland barge company in the country – I can tell you that waterways commerce is extremely important for maintaining low-cost, reliable electric service, in addition to supporting economic competitiveness.
- Our barge company, AEP River Operations, operates more than 3,000 barges and 90 tow boats. We transported nearly 74 million tons of cargo over the inland waterways in 2012 – and 48 million tons of that cargo touched the Ohio River Basin.
- Over the last 8 years, we have experienced several lock failures on the Ohio River that cost our barge business alone in excess of \$11 million dollars. One lock failure at Lock 52 on the Ohio River lasted 32 days and cost AEP River Operations \$4.6 million in delay costs.
- Similarly, the outage of the main chamber at the Markland lock on the Ohio River began in the summer of 2011 and lasted more than 389 days, costing just AEP more than \$5.5 million in delay costs.
- Unfortunately, we and the Corps of Engineers anticipate that critical lock failures will not only continue but accelerate.
- The effects on our barge company are direct and measurable, but the impacts of the waterways infrastructure problems extend to our customers.
- AEP is one of the largest utilities in the United States. Our company, and many others in the energy industry, depends on

the waterways to deliver fuel and other materials to our power plants.

- Barges shipped more than 60 percent of the coal used by our eastern generation fleet in 2011, and they do it very efficiently and effectively.
- It would take 216 railcars or 1,050 semitrailer trucks to carry what one fully loaded, 15-barge tow can move.
- A prolonged closure of the Ohio River would have a severely adverse affect on AEP customers and other electricity customers.
- For example, if both chambers at Willow Island Lock along the Ohio River fail – as the Corps of Engineers predicts may occur as soon as 2015 – the cost to get fuel to our power plants by truck, rail, and trans-loading barges around the lock, and to purchase coal on the spot market, would be more than \$22 million dollars per month. And, that is \$22 million that would be directly passed on to customers in fuel costs.
- So delays and stopping barge deliveries of coal, for even a short time, can increase electricity prices. It also may affect the reliability of the electric grid, depending on weather, demand, and market conditions at the time.

Why You Should Care

- Beyond lowering the cost of delivering fuel to generate electricity, our ports and inland waterways systems are critical to the nation's economy and our standing in the global marketplace.

- They are our most efficient, cost-effective and environmentally sound transportation system – and the backbone of American commerce.
- Our inland waterways carry agricultural and petroleum products, coal, sand, gravel, chemicals, cement, steel, grain, fertilizer, mulch and other basic materials that are the building blocks of products we purchase – and export – every day.
- If we fail to adequately fund waterways infrastructure, we undercut the low-cost transportation required to remain competitive in international markets, and we raise the cost of doing business and living in America.
- If Congress does not act soon to provide increased, adequate funding to maintain and upgrade our waterways infrastructure, the cost of energy and U.S. products will increase...something we can ill afford in our current economic state. It really is that simple. America's competitiveness and our standard of living are on the line.
- I don't want to sound all doom and gloom, but I'll share a few stats from a recent report by the American Society of Civil Engineers that underscore the importance of fixing this issue.¹
- According to the report, delays on the waterways system are estimated to have imposed \$33 billion dollars in additional costs on U.S. products in 2010. These costs are expected to increase to nearly \$49 billion by 2020 and to \$68 billion by 2040.
- Similarly, lost business will increase as America's competitiveness declines. The report estimates an aggregate loss in business sales of \$1.3 trillion by 2020 and \$7.8 trillion by 2040 given current unmet needs on the waterways system.

¹ *Failure to Act: The Economic Impact of Current Investment Trends in Airports, Inland Waterways, and Marine Ports Infrastructure*, American Society of Civil Engineers, 2012, <http://www.asce.org/Infrastructure/Failure-to-Act/Airports,-Inland-Waterways,-and-Marine-Ports/>

- Our gross domestic product also will decrease drastically if we don't invest more in our waterways infrastructure. The report estimates the cumulative loss in national GDP will be about \$700 billion dollars by 2020 and reach \$4 trillion by 2040.
- Over time, America's lack of competitiveness will erode jobs as businesses face higher costs to produce products. The Society of Civil Engineers estimates the impact to be a loss of 738,000 jobs by 2020 and 1.4 million fewer jobs by 2040.
- I could go on, but I think you have the picture.

So how can you and the Chamber help?

- First, we need to educate stakeholders about the importance of river transportation and its importance in our economy and our way of life.
- We need to ensure the Corps of Engineers has the necessary resources to make our ports and inland waterways system the envy of the world once again.
- Simply put, this will require a substantial increase in both public and private investment and, more importantly, courage and leadership from our elected officials.
- How much money are we talking?
- From the standpoint of private investment, the barge industry has proposed an increase in the fuel tax we pay to use the waterways, which goes into a trust fund to be used for repair and improvement projects. This increase funds an \$8B Capital Development Plan over 20 years, that is also incorporated in the Wave 4 legislation.

- Overall, experts estimate that at least \$30 billion dollars will need to be invested between now and 2020. That includes about \$13 billion needed for inland waterways, and more than \$17 billion to address the needs of marine ports.
(all figures in 2010 dollars)²
- The current planned expenditures are about \$14 billion, leaving a total investment gap of \$16 billion over the next 7 years.
- Compared to many other infrastructure-related appropriations that are made, this is not an exorbitant amount given that \$2T in infrastructure investment is required in the electric utility industry over the next two decades, and is not out of the question for addressing waterways infrastructure. Our waterways crisis is a high probability, high impact situation.
- As a result, time is of the essence. We shouldn't wait until a major calamity strikes before we act. Construction and remediation of locks and dams requires long lead times.
- Once funds are made available, the Corps of Engineers will need additional time to complete the work with minimal disruption of commerce. This is where courage and leadership are critical.
- Despite the dire condition of our nation's waterways, I remain optimistic. We will update and modernize our waterways infrastructure sooner or later. We have no choice. So, what we are dealing with is a classic "pay me now...or pay me more, later" situation.
- Bottom line, these additional funds must be authorized and appropriated, and we need your help and the help of the Chamber to educate the Administration, beginning with the

² American Society of Civil Engineers report, pp. 6 and 21

Office of Management and Budget; and also Congress, beginning with the Committees of Jurisdiction.

- For my industry, the first place we start is the Water Resources Development Act – WRDA. I’m happy to report that the House and Senate have both designated it a priority, and fortunately, we are making progress.
- I commend the Inland Waterways User Board and the members of the Waterways Council on their work with the Corps of Engineers toward finding a suitable prioritization and funding mechanism for locks and dams.
- I also commend Chairman Ed Whitfield, former Congressman Jerry Costello and the numerous co-sponsors for introducing in the last Congress the “Waterways Are Vital for the Economy, Energy, Efficiency, and Environment Act of 2012” – also known as the WAVE 4 Act.
- This legislation is an excellent foundation. It provides a balanced, comprehensive, workable 20-year inland waterway system modernization investment program for the nation. I expect this bill to be re-introduced soon, and included in the more comprehensive WRDA. Daniel Lipinski (D-IL) is the co-sponsor with Chairman Whitfield on the Water Resources Development Act.
- These are only the first steps of a long journey that we must complete sooner rather than later.
- I hope you will support the efforts of the Chamber and work with my company and our allies to help finally resolve our waterways infrastructure crisis.
- Thank you. I’d be happy to take any questions.