

Wayland, Joshua

From: Sindy Smith <sindysmith@utah.gov>
Sent: Thursday, August 15, 2019 3:29 PM
To: Wayland, Joshua
Subject: Comments: Seven County Infrastructure Coalition Uinta Basin Railway Project
Attachments: 69646 STB Scoping Comments.pdf

Joshua,

Please find attached scoping comments concerning the Uinta Basin Railway project.

Thank you,

Sindy

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Sindy Smith
RDCC Coordinator
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Public Lands Policy Coordinating Office

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State of Utah

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Office of the Governor
PUBLIC LANDS POLICY COORDINATING OFFICE

KATHLEEN CLARKE
Director

August 15, 2019

Submitted via electronic mail: Joshua.Wayland@stb.gov

Joshua Wayland, Ph.D.
Environmental Protection Specialist
Surface Transportation Board
Office of Environmental Analysis
395 E. Street, SW
Washington, D.C. 20423

Subject: Seven County Infrastructure Coalition – Rail Construction & Operation – in Utah, Carbon, Duchesne, and Uintah Counties – Scoping Comments
Docket No. FD 36284
RDCC Project No. 69646

Dear Mr. Wayland:

The State of Utah appreciates the opportunity to review the notice of intent to prepare an environmental impact statement (EIS) and the draft scope of study (DSS) for the EIS. The State strongly supports the Coalitions' proposed preferred Indian Canyon Route, which connects to Union Pacific's railroad, as the most feasible and environmentally practical option. The State previously provided comments on May 9, 2019 and incorporates those comments by reference. In collaboration with the School and Institutional Trust Lands Administration (SITLA), the State provides the following comments.

School and Institutional Trust Lands Administration

Background

Utah's school and institutional trust lands were granted during statehood by Congress under the Enabling Act of 1894, for the financial support of the State's K-12 public schools and 11 other public institutions. SITLA is an independent state agency, created in 1994 because of the need to manage these lands for perpetual benefit. SITLA has approximately 4.4 million mineral acres and 3.5 million surface acres in its portfolio, located throughout Utah.

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Financial Impact to Utah's School Trust

The Indian Canyon Route does not have immediate foreseeable impact to SITLA lands or associated contracts with its lessees and provides for an efficient method of transportation that can enhance revenues to the trust through increased oil and gas royalties.

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SITLA beneficiaries have received more than \$1 billion in payments associated with oil and gas, since 1994. These payments are deposited into its permanent trust fund and invested in a balanced market portfolio, providing perpetual benefit through annualized earnings. The fund is approximately \$2.5 billion and will pay public schools more than \$82 million in endowment earnings for 2019. Emphasis of revenues generated from oil and gas cannot be overstated. In particular, the basis dollars alone account for roughly 42 percent of today's permanent fund. This demonstrates the importance of efficiently monetizing finite oil and gas resources into significant future cash flows through investment growth strategies.

Per SITLA's future resource management, the oil and gas development outlook is increasingly constrained from both a land position and infrastructure perspective. In other words, SITLA relies on production sharing to generate revenue from its minerals within the heart of the Uinta Basin. Because of this sharing methodology, SITLA's beneficiaries require enhanced recovery techniques in order to efficiently monetize their minerals. With the advent of horizontal drilling technology, oil production is now capable of volumes not seen in the Uinta Basin prior to 2015. However, the current infrastructure is limiting daily production volumes to local Salt Lake City refining capacity and pricing constraints. This limitation can be surpassed with the railway project and thereby multiply economic output by supplying additional barrels of oil to competitive markets outside of Utah.

SITLA received 91.5 percent of its oil production from the Uinta Basin, but that only accounted for a staggering .8 percent of the total 2018 oil production in the Basin. This equates to roughly \$11 million in oil revenue to SITLA for 2018, which conservatively stands to double to \$22 million with the railway. Industry experts are testifying before the Utah Division of Oil, Gas and Mining on the merits of oil recovery factors stemming from 1,280-acre spacing units. Each 1,280-acre spacing unit is believed to hold an estimated ultimate recovery of 32 million barrels of oil, or 32 wells with 1 million barrels of oil each. However, this type of full development is not attainable unless takeaway capacity is increased dramatically. Currently, the 1,280-acre spacing units are not able to realize full development of 32 wells because operators have already reached maximum capacity with the Salt Lake City refineries. As a result of this bottleneck, large portions of these 1,280-

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acre units are not being drilled, which leaves no room for production growth or incentive to increase drilling with capital investment in Utah.

Alternatives reviewed under the DSS

Two alternatives are addressed in the DSS: the Wells Draw and the Craig Routes. The Wells Draw Route will cause an additional 25 miles of surface disturbance, while the Craig Route causes an additional 105 miles of disturbance. From a cost-benefit perspective, SITLA is assuming that the additional surface disturbance could only be justified if there were some major defects to the Indian Canyon Route. The Wells Draw Route cuts through the Greater Monument Butte Unit oil field, which is a well-established producing field, making it a seemingly inconvenient alternative to navigate, while also being a longer route to get to the same place the Indian Canyon Route is going. The Craig Route would impact two additional Bureau of Land Management's Resource Management Plans in Colorado (Little Snake and White River), making the project further entangled in administrative process delays and local-level government uncertainty. In addition, the Craig Route traverses across northeastern Utah, and concerns SITLA because it crosses a block of its land, known as Asphalt Ridge. SITLA currently has a lessee who is planning to drill test wells and shoot seismic in the pathway of this planned route and mitigation measure would be necessary. In short, the Wells Draw and Craig Routes do not appear to have overwhelming advantages for SITLA.

Environmental Considerations under the DSS

The DSS provides for draft-scoping only; the actual environmental constraints are not provided for detailed comparison. The direct and indirect impacts will be analyzed in full detail under the EIS. A smaller direct footprint would be less disruptive and seems appropriate as the preferred option. Indirect or cumulative footprints would be harder to gauge with limited scientific data available and depend on market conditions, such as supply/ demand, type, and quantities of products being transported.

Building a railway to support economic growth is no different than building a highway to support local traffic when it becomes bottlenecked. Socioeconomic impacts appear positive, with benefit to the state through production taxes, job creation and increased commerce. Technological efficiencies provide ways to mitigate adverse environmental impact with strategic route planning and industry best practices aimed at sustainable construction methods and safer standard operating procedures.

Conclusion

Utah's trust lands beneficiaries, including Utah's schoolchildren, would see significant gains by doubling or tripling oil takeaway capacity from the Uinta Basin with the railway construction project. Industry has long been stressing the need for railway infrastructure to transport waxy crude from the Basin because it can enable drilling efficiencies that support investing in oil production programs in Utah. Otherwise expressed,

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there has been a local-market ceiling on oil production volumes, up to around 85,000 barrels per day in refinery capacity, which the railway seeks to resolve with access to new market capacity and competitive pricing.

SITLA views the opportunity cost of not constructing the railway as too high to miss out on; it's a rare chance to vastly magnify beneficiary's distributions through a larger fund. The fund has paid beneficiaries roughly \$730 million in total annual endowments since 1994, while the fund itself has grown from about \$60 million to nearly \$2.5 billion, today. The endowment payments provide much needed discretionary spending dollars for public schools and other beneficiaries for an ever growing state population. The success of many future programs depends on building a permanent fund basis large enough to sustain future generations.

The DSS is a step in the right direction because it provides opportunity for efficient markets to grow and operate outside of local refining constraints in Utah. The SCIC, through funding by the Community Impact Board, has provided an opportunistic path forward with the Indian Canyon Route. It is critical that the project be given a chance to succeed; as SITLA's resources risk being stranded without increased production takeaway realized from the railway. The lack of rail means SITLA may never actually monetize its resources to the fullest capability with production scale.

The State looks forward to working with the STB, cooperating agencies, and other various stakeholders throughout the process. The nature of this project is time-sensitive, it warrants an organized and efficient process, which will provide reasonable decision making timelines for investing parties to plan around. Needless delays threaten the confidence of investment, and should be avoided through clear expectation-setting and holding cooperating agencies accountable to Council of Environmental Quality guidelines for National Environmental Policy Act's EIS review process.

The State reserves the right to supplement these comments, in the event the State identifies other specific items to be analyzed by STB. If you have any questions, please contact the Public Lands Policy Coordinating Office.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. Clarke', with a stylized flourish at the end.

Kathleen Clarke
Director