

**RAIL SERVICE COMPETITION COUNCIL (RSCC)
MEETING MINUTES
March 24, 2014
Helena, Montana**

Attendance

RSCC Members: Chairman Michael O’Hara, Carla Allen, Mike Tooley, Mayor Jerry Jimison, Russ Hobbs, Rep. Ryan Lynch, Ron de Yong, Mike Kadas, Walt Ainsworth, Sen. Bruce Tutvedt, Commissioner Tony Berget, John Rogers

Montana Department of Transportation (MDT) Staff Support: Christopher Dorrington, Diane Myers

Other Government Agency Representatives: Joel Clairmont, Kim Falcon, and Greg Stordahl, Montana Department of Agriculture (AGR); Eric Sommer, U.S. Department of Agriculture National Agricultural Statistics Service

Public: Barbara Ranf, Karen Burchfield, John Miller (by phone), Barb Haertling (by phone) BNSF Railway Company; Jim Lewis, Montana Rail Link (MRL); Dan Harbeke, Union Pacific Railroad (UP); Pat Keim, Columbia Grain

RSCC Administrative Support: Mary Vandenbosch

Call Meeting to Order, Introductions

Chairman O’Hara welcomed everyone and called the meeting to order. All attendees were introduced.

Election of Officers

Michael O’Hara was nominated and elected to serve as Chair. (Motion by Jimison, second by Allen, carried unanimously.)

Carla Allen was nominated and elected to serve as Vice Chair. (Motion by Jimison, second by Hobbs, carried unanimously.)

Approval of Minutes

The minutes of the January 9, 2014 meeting were approved with the following correction: The RSCC asked if the railroads would reconsider the 48/55 rule. (Motion by de Yong, second by Ainsworth with correction, motion carried.)

Financial Report

Chris Dorrington reviewed the RSCC budget and distributed a document entitled "Report of FY 2014 funds and expenditures, February 28, 2014." The balance after obligations is \$26,900.

Analysis of World Trade Center Montana Freight Assessment

Chris Dorrington distributed a letter dated March 5, 2014 from Anthony Rodriguez, Project Manager, Montana World Trade Center (MWTC). The MWTC has agreed to prepare a short synthesis report based on the 2012 Montana Freight Assessment study for \$1,000.

Subcommittee Reports

Agriculture Subcommittee Chair Carla Allen reported that the subcommittee met by teleconference. The main issue for agricultural shippers is long and short-term capacity for rail shipping and how information about capacity will be communicated. Concerns raised include the following:

- Uncertainty about rail shipping rates and the car supply.
- There is still grain left from last year's harvest that has not been shipped.
- Pulse crops are severely impacted by the shortage of cars and the inability to ship by rail.

Allen explained that all of these issues have a severe impact on the base economy.

Montana Department of Agriculture Director Ron de Yong informed the committee that representatives of the Department will meet with representatives of BNSF on April 4 in Billings. The Department conducted a survey about three months earlier. Director de Yong identified the following issues for agricultural shippers:

- Shippers are experiencing delays of up to 40 days.
- Shippers incur penalties of 5 to 10 cents per bushel per day due to delays.
- Cars are difficult to obtain; therefore, shippers have to bid more for cars - up to \$5,000 per car.
- Elevators are increasing the basis because they don't want to be left with grain that they can't ship.
- Producers may be losing international sales because they can't ship grain.

Kim Falcon distributed a document prepared by the USA Dry Pea & Lentil Council entitled "Rail Service Crisis Facing U.S. Dry Peas, Lentils & Chickpeas" (March 17, 2014).

Chairman O'Hara noted that wheat is being piled on the ground at Chester and emphasized that this has never happened before.

Chair Jerry Jimison reported that the Energy Subcommittee held a teleconference. The Subcommittee identified several questions for railroads:

- Provide clarification regarding the alignment of the Tongue River Railroad and whether there will be a spur line to Colstrip or a spur line to Miles City.
- What are your 5-year projections for shipments of coal and oil from Montana?
- What is the potential for potash shipped from Canada coming to the BNSF line at King's Point? Will shipping of potash present another obstacle for shipments from Montana to the West Coast?
- Does BNSF provide hazardous materials training on request or does the company proactively reach out to communities to offer the training? Jimison thanked BNSF for providing training to 35-40 people in Glendive and noted that some Bakken oil is more flammable and combustible than gasoline.
- The UP line runs down one side of the Columbia River Gorge and BNSF runs down the other side. Could empties be brought back on the other side?
- Will reducing the speed of trains carrying crude oil to 40 miles-per-hour be productive or will it clog the system?

Jimison noted that the State Land Board approved an expansion of the coal mine at Roundup and this coal is mostly going to the West Coast and being exported on time.

Shipping concerns identified by the Energy Subcommittee included: big shippers not getting a 12-day turn around, lack of crews to run trains, and a shortage of locomotives.

Subcommittee Chair Russ Hobbs reported that the Industrial/Forest Products/Paper/Minerals Subcommittee is waiting for the railroad/shipper forum to be organized. He has been in contact with shippers in the forest products industry. Issues include inadequate car supply, and having to ship west to ship east. Plum Creek is close to the point where it would need to shut down the MDF plant.

Chair Walt Ainsworth reported that the Ports/Intermodal Subcommittee has not met pending receipt of a synopsis of the World Trade Center study. He also expressed concern about the shortage of containers.

BNSF Railway Report

Karen Burchfield, Assistant Vice President Industrial Product Sales, and Barbara Ranf, Executive Director-Government Affairs, addressed some of the issues identified by RSCC and subcommittee members:

- BNSF has both internal and external hazardous materials training programs. A handout entitled "Community Safety Initiatives" was distributed.
- BNSF prefers the Colstrip alignment for the Tongue River Railroad; however, BNSF does not have the authority to choose the alignment. A handout entitled "Tongue River Railroad-Environmental Impact Statement" was distributed. The Environmental Impact Statement will be prepared in the summer of 2014. Links to websites will be provided to RSCC members.
- BNSF has modeled the effect of reducing the speed of trains transporting crude oil and found that reducing the speed around high urban density areas will have a negligible impact on

service because train speeds are already slow through these areas now. BNSF initiated this safety measure and has worked with other Class I railroads.

- Because of the relationship between the price of natural gas and the demand for coal, it is very difficult to make five year projections for shipping coal.

A handout entitled “Montana—Helping move a state’s economy” dated 3-10-14 was distributed.

Burchfield emphasized that safety is the number one priority for BNSF. Efficiency and productivity are also important. She has heard feedback from Russ Hobbs that customers need to hear more proactive communication.

Burchfield presented a slide show entitled “BNSF Service Update, March 2014.” Burchfield reviewed growth and changes in rail traffic nationwide as the economy has improved and explained how BNSF has increased its capacity. Key points include the following:

- BNSF moved 50% of all the unit growth (2012-2013) on U.S. rail. Unit growth has not attained the same level of traffic as in 2006; however, gross ton miles (GTM) exceed those for 2006.
- The mix of BNSF’s traffic was much different in 2013 compared to 2006. Petroleum increased significantly; however, petroleum is still only 5% of BNSF’s units. The challenge for BNSF is the location of the petroleum shipments.
- BNSF has increased the number of locomotives. The company is bringing on 42 per month with short term leases plus repair.
- Train crews have also expanded with a headcount increase after attrition of 6.8% in comparison with an 8.4% increase in unit miles.
- New capacity has not kept pace with significant volume increases.

Burchfield reviewed the factors that contributed to the current congestion:

- Crude oil and grain shuttle traffic increased significantly in October 2013. Grain shuttle sets increased 44% and crude sets increased 9%.
- Capacity did not keep up with increased traffic.
- Extremely cold weather slowed down freight in the northern corridor. Trains are shorter due to limited braking ability and crews are required to limit their time working outside. The Chicago complex was particularly affected by colder and snowier weather and the operations in Chicago can affect Minneapolis.

Burchfield reviewed BNSF service metrics that show BNSF is not meeting goals for past due cars, transit days, and terminal dwell hours.

Burchfield described BNSF’s plans to improve capacity in the short-term and long-term:

- Adding 380 employees in the north and putting managers back into operations.
- Deploying additional locomotives. The active fleet is up 900 locomotives
- Investing \$5 billion in capital improvements to the system in 2014. This includes construction of double track on 46 miles in the Glasgow subdivision in 2014. The Glasgow subdivision will be

completely double-tracked this year. However, there may be bottlenecks in other areas (e.g., Whitefish).

Some RSCC members explained that some shippers are not willing to identify problems because they fear retribution (e.g., they fear they will be unable to obtain a car the next time they need one). Chairman O'Hara asked if this issue could be addressed. Burchfield agreed that customers need to feel comfortable elevating their concerns.

O'Hara explained that approximately 30% of the grain and pulse crops shipped from Montana are moving on nonunit trains. Burchfield stated that the gathering and distribution network is a core part of BNSF's business and BNSF is dedicated to single car flows. BNSF will never be out of the single car business.

John Miller, Group Vice President Agricultural Products, and Barb Haertling, General Director Wheat, joined the meeting by phone. Director de Yong and Chairman O'Hara highlighted some of the facts, concerns and questions regarding agricultural shipping in Montana. They emphasized that poor rail service is costing Montana agricultural producers millions of dollars. Montana is the number one producer of pulse crops in the U.S. Pulse crops are an emerging industry involving small shippers and startup businesses. These emerging businesses are unable to implement their business plans and are at risk.

They identified the following requests of BNSF:

- Eliminate the 48-car marriage rule. It is unreasonable to expect elevators that are unable to obtain cars to marry them. BNSF is in a better position to marry cars. BNSF can work with the Port of Northern Montana to consolidate smaller trains into larger trains.
- Cars carrying fracking sand from China via the West Coast should be immediately emptied and filled with wheat or pulse crops.
- Open up the line between Great Falls and Helena so products (e.g., malt barley) can be shipped south through Silver Bow.
- Get caught up on shipping this year's crop. Sixty-five percent of the grain produced this year has not been shipped.
- Share the cost of Certificates of Transportation.

Burchfield explained that BNSF is projected to have past due cars through June. The goal is to have less than 1000 past due cars that are no more than 10 days late. Miller explained that fracking sand is shipped from the Midwest in sand hopper cars that are dedicated to sand service to avoid contamination. Ceramics are shipped in boxes from China. The BNSF representatives noted that the line between Great Falls and Helena hasn't been in service for possibly 20 years and it would take a lot of capital to open this line. The volume necessary for that type of capital improvement is likely much greater than the available volume. This would not be a short-term solution. It is also unlikely that double-tracking is feasible at Whitefish.

Miller offered to meet with the Montana Department of Agriculture or the RSCC. Chairman O'Hara extended an invitation to participate in an RSCC meeting and an onsite visit.

Union Pacific Railroad Report

Dan Harbeke, Director of Public Affairs for Union Pacific Railroad, encouraged the RSCC to contact him with specific questions as they arise so he can identify the right people to answer them. Many questions are commodity specific. He explained that UP has experienced the same weather issues that BNSF representatives described. UP has 15 employees and 125 miles of track in Montana. He is not aware of any service issues in Montana. UP has the capacity to ship more freight on the Butte-Silver Bow line. He noted that 90% of the freight going in and out of Mexico moves on UP freight. Harbeke will provide information about shipping in and out of Montana, a new system map, and information about the mix of commodities shipped. He noted the need for policies to incentivize rail traffic and also to maintain policies that don't force UP out of Montana.

Montana Rail Link

Jim Lewis, Chief Sales & Marketing Officer, MRL presented a slide show. Key facts about MRL highlighted by Lewis are listed below:

- 937 miles of rail line from Jones Junction to Sandpoint, Idaho.
- Employ 1000 people
- 185 customers.
- Pay \$3 million in state taxes and \$9 million in property taxes.
- 80% of MRL's volume comes from BNSF and they have a good relationship with BNSF.
- 65,000 carloads shipped from Montana shippers annually.
- Spend an average of \$70 million per year with Montana businesses and contractors.

Montana Rail Link was named railroad of the year by *Railway* magazine and short line railroad of the year by BNSF.

The average daily train count for 2013 breaks down as follows:

- 6.5-general
- 5.6 coal
- 2.8 grain
- 1.9 automotive/intermodal
- 16.8 total

Most of the increase in 2013 was in general and intermodal shipping. Coal shipping increased ½ train per year.

With respect to increasing capacity, MRL has a \$55 million capital plan for 2014. Money is being invested in five new locomotives, five turnouts in Laurel, a New Laurel crossover, extending the Townsend siding, yard changes in Helena, Livingston track expansion, and the Livingston fueling facility. MRL hired 357 new employees in 2012-2013, which represents a net gain of about 150 after attrition. Customer surveys show service is good.

Central Montana Railroad Report

Carla Allen passed around photos of the bridge construction and announced that a ribbon cutting is planned for July 7, 2014.

Dialogue with Railroads re: Improving Rail Shipping Opportunities

The RSCC discussed establishing a subcommittee to promote economic development by facilitating dialogue between shippers and railroads. After some discussion about concerns about compliance with antitrust and open meeting laws, the RSCC determined that the subcommittee could facilitate a two-part process. The subcommittee could identify economic development opportunities involving rail transportation and facilitate communication between shippers and railroads. At some point, communication about these rail shipping opportunities would be pursued in private conversations between shippers and railroads.

Sen. Tutvedt stated that the subcommittee could also explore how Montana can provide incentives and remove disincentives to rail transportation in Montana.

Burchfield explained that there is a forum like this for the automotive industry. She recommended that the group include an antitrust attorney. She also suggested that the RSCC could create a forum that would facilitate individual conversations by arranging for commodity experts from railroads to be available in meeting rooms.

Russ Hobbs will convene a subcommittee to refine a charter and report to the RSCC. A letter from Dan Harbeke dated February 10, 2014 was distributed. The letter contains suggested revisions to the charter discussed at the January 9, 2014 RSCC meeting.

National and Regional Reports

Chris Dorrington reported on the work being done for the Great Northern Corridor under Multistate Corridor Operations and Management (MCOM) grants totaling approximately \$1 million. Participants met in January and the funds for MCOM 2 have just been obligated. After a strengths, weaknesses, opportunities, and threats (SWOT) analysis is completed, pinch points identified will be analyzed.

Dorrington referenced a handout describing a nominated National Cooperative Highway Research Program (NCHRP) research proposal re: Agriculture's Dependency on Transportation Linkages and the Corresponding Impact on the U.S. Economy. Comments were solicited from RSCC members and forwarded.

Montana Department of Transportation Director Mike Tooley reported on national freight issues. Tooley is a member of the U.S. Department of Transportation National Freight Advisory Committee. He noted the following:

- Congestion issues are complex; they are national and multimodal in nature. Issues are not limited to one transportation mode or one commodity.
- While use of the freight transportation system has increased about 27%, investment in freight transportation has not increased accordingly.
- Federal Motor Carrier Safety Administration (FMCSA) rules drive transportation to peak times.
- Panama is expanding the Panama Canal to accommodate larger ships.
- Larger ships account for 37% of shipping.
- The U.S. has a \$9.1 billion harbor maintenance fund that could be used to accommodate larger ships.

Next Council Meeting

The next meeting date was set for May 22, 2014.

Adjournment

With no further business to discuss, Chairman O'Hara adjourned the meeting.