

**Rail Service Competition Council (RSCC)
Meeting Minutes**

July 25, 2017
10:00 am – 2:20 pm

MDT Auditorium
2701 Prospect Avenue
Helena, MT 59624

RSCC Members Present:

- Jerry Jimison, Chairman
- Dylan Boyle, Director, Whitefish Convention & Visitor Bureau
- Senator Tom Facey
- Kathy Fasso
- Ken Fichtler, Chief Business Development Officer, Governor's Office
- Craig Gilchrist
- Mike Kadas, Director, Department of Revenue
- Mike Tooley, Director, Department of Transportation

Other Attendees:

- Rob Eaton, Government Affairs Director, Amtrak
- Matt Jones, BNSF Railway (BNSF)
- Maia La Salle, BNSF Railway (BNSF)
- Ross Lane, BNSF Railway (BNSF)
- Collin Watters, Executive Vice President, Montana Wheat and Barley Committee
- Jeremiah Langston, Montana Public Service Commission (PSC)
- Zach Rogala, Montana Public Service Commission (PSC)
- Zach Coccoli, Montana Department of Agriculture
- Kraig McLeod, Montana Department of Transportation (MDT)
- John Althof, Montana Department of Transportation (MDT)
- Katy Callon, Montana Department of Transportation (MDT)
- Blair Fjeseth, RSCC Administrator

Call To Order, Introductions

Chairman Jimison welcomed everyone and called the meeting to order at 10:02 a.m.

Approval of the March 16, 2016 RSCC Meeting Minutes

Senator Facey offered a motion to approve the March 16, 2016 minutes as presented. Kathy Fasso seconded the motion. The motion carried by unanimous voice vote.

Financial Report

Kraig McLeod presented the financial report. Kraig explained that the RSCC budget for FY 2017 was \$32,380, the council used \$5,149. The FY 2018 and FY 2019 budget is \$31,041. Kathy Fasso made a motion to accept the financial report. Ken Fichtler seconded this motion. The motion carried by unanimous voice vote.

Public Comment

Chairman Jimison called for public comment. No public comments were made.

MDT Update

Kraig McLeod provided the RSCC new member handout which gives a history of the Council, its duties according to Montana Code, and member roles.

Kraig also showed attendees the MDT RSCC website (www.mdt.mt.gov/business/rsc/). The website is a resource for interested parties to find meeting agendas, minutes, members, past projects, and other helpful information

MDT Highway Rail Conference- John Althof

John Althof gave an update on MDT's upcoming Highway Rail Conference. The conference will be held in Helena at the end of August. The goal of the conference is to provide local government entities, tribes and MDT the opportunity to network with the rail industry. MDT is partnering with BNSF and Montana Rail Link. Registration should be done through the conference website: <http://mdt.mt.gov/highwayrail>

Freight Plan Update and 2nd Stakeholder Meeting- Kraig McLeod

In December 2015, the Fixing America's Surface Transportation Act, or FAST Act, was signed into law. The FAST Act established a new National Highway Freight Program (NHFP) to improve the efficient movement of freight on the National Highway Freight Network (NHFN). The NHFP requires Montana to develop a State Freight Plan by December 2017. Kraig mentioned that the MDT has developed a draft of the Montana Freight Plan. Kraig noted the first stakeholder meeting was held in October 2016. Kraig indicated a survey request would be sent out to the freight stakeholders soliciting feedback on the most beneficial approach to obtain comments on the draft plan. If desired by stakeholders, a 2nd stakeholder meeting will be held on August 15th in Helena.

Class I Merger Research & Update- Katy Callon

Katy Callon gave an update on RSCC's March request to research into any upcoming Class I mergers. Key points included:

- MDT researched Class I mergers, initially by searching the Surface Transportation Board website and looking through relevant news articles online. National Transportation Library's reference librarian was consulted to see if he had any additional information to share. He confirmed what MDT had found in the articles.
- MDT contacted Surface Transportation Board staff member Fred Forstahl to ensure that no findings were missed – either documented or hearsay.
- In late 2015, Canadian Pacific Railroad, led at that time by Hunter Harrison, made movement towards acquiring Northern Suffolk. There was also talk of acquiring CSX. None of these acquisitions came to pass; Harrison abandoned these attempts in Spring 2016. Since then, there has been no further attempts at mergers or acquisitions on record.
- In discussion with Mr. Forstahl, after the series of mergers in the late 90's/early 2000's, STB changed their rules, raising the bar, so that the parties involved had to prove that the

action would be pro-competitive, which is an attribute typically in contrast with the nature of mergers and acquisitions.

RSCC Discussion

The committee discussed that Canadian Pacific Railway (CP) and Canadian National Railway (CN) service Canada. Chairman Jimison asked about the Canada interchange in North Dakota and Sweet Grass. Matt Jones indicated those are BNSF lines that interchange with CP.

Matt Jones provided an update that Hunter Harrison recently left CP to serve as CEO of CSX. Harrison is known as a transformational figure to the companies he has worked for in the past.

Chairman Jimison and the Council discussed the history of the rail lines and acquisitions to create our rail system.

Railroad Reports

Amtrak - Rob Eaton and Dyan Boyle

Rob Eaton presented the following Amtrak report:

- Proposed federal budget includes a \$500 million reduction in Amtrak funding.
- Members of the Amtrak Government Affairs team have been meeting with local elected officials and members of Congress to communicate the importance of passenger rail service to the communities served, as well as the importance of continued funding.
- Amtrak will work with President Trump, Secretary Chao, and Congress to ensure that they understand the value of Amtrak's long-distance services and the impact of proposed cuts to this important part of the nation's transportation system.
- This week, the omnibus spending bill was approved, and Amtrak funding was \$1.495 billion.
- Amtrak's goals are to modernize the customer experience, invest in assets, and build a world class safety culture.
- In 2016, Amtrak carried over 47,000 bicycles with Amtrak's new equipment and bicycle program.
- In 2016, Amtrak carried over 21,400 pets in a California pilot program. The program will be rolling out on a larger scale this year.
- Fleet improvement includes 130 Viewliner II Cars, 70 ACS- 64, and 28 next gen trainsets.
- Amtrak invested over \$75 million in the Seattle station and is building a new locomotive shop in Seattle, starting this summer.
- While ridership was down this past year, ticket revenue is up.
- Montana ridership has been growing steadily since 2014.
- Last year, Amtrak had 43 Montana employees, which totals around \$4 million in Montana employee investments. This investment results in approximately \$8 million in supported employment in the communities.
- There are 12 terminals in Montana, which serve critical needs, especially during the winter.
- In Montana, Amtrak is partnering with the Whitefish Convention & Visitors Bureau (CVB) to build ridership and tourism in the area.

Dylan Boyle presented the following report:

- Together, Amtrak and Whitefish CVB have developed a marketing campaign targeted to audiences both by season and by recreation.
- Les Schwab Tires promoted Whitefish Mountain Resort through a retail store giveaway at over 80 locations in Washington, which was supported by print advertising, social media and web promotion.
- Amtrak and the CVB partnered with travel agencies and resorts, offering a 20% discount for Whitefish Amtrak end destinations (Whitefish 20). About 2,500 people took advantage of the Whitefish 20 campaign. The Facebook Whitefish 20 campaign resulted in approximately half million impressions.
- The campaign was suspended for a day or two when the webpage was trolled due to activity of a network of neo-Nazis from Ohio. The campaign resumed after the comments were filtered out. The City of Whitefish banded together to provide a clear message that it did not support this extreme ideology.
- Looking 6 months ahead, CVB plans to work on the development of a memorandum of understanding with Amtrak, and at the beginning of November, sample ads should be available for the Council to preview.

RSCC Discussion

The Council discussed the marketing campaign. Ross Lane asked about the market demographics CSB targets. Dylan Boyle noted that it depends on the market; for the Seattle/Portland area, the market is snowboarders and skiers who can travel over for weekends. The campaign targets Seattle, Minneapolis, San Francisco, Chicago, and Portland. Dylan also mentioned that they market based on Amtrak train stop locations and where the Travel Montana campaigns have laid a foundation. Senator Facey asked how much a billboard costs in Seattle. Dylan noted that a single billboard costs about \$3,000. Dylan said that they are now doing bus wraps in Portland; a six-week run costs around \$10,000, excluding design costs.

Chairman Jimison inquired regarding Glendive passengers, whether there was a price difference for those that went to Williston, North Dakota to board. Rob Eaton replied that if there was, it would be a small one. Craig Gilchrist asked about the possibility of a Culbertson terminal. Rob discussed that both Amtrak and BNSF are interested in partnering with the town to open a terminal. However, it is ultimately the responsibility of the town to pay for the terminal. The mayor of Culbertson is currently reaching out to other communities in the hopes of forming a coalition to look at possibilities.

BNSF – Matt Jones, Ross Lane, and Maia La Salle

Matt Jones, Ross Lane, and Maia La Salle gave the BNSF report. Some key points included:

- BNSF is in the middle of their construction season. They are maintaining rail and working on their capital program projects.
- \$100 million of the capital program is being spent in Montana this year.
- BNSF has had a challenging winter due to floods, avalanches, landslides and heavy snow.
- From North Dakota to Montana, BNSF has continued to invest in expansions such as double track and additional sidings to improve traffic flow and to allow for quicker recovery after natural events, such as were seen this previous winter.

- Sandpoint, ID is a rail funnel as the trains use a single lane bridge. BNSF has announced that they are going to try to build another train bridge in that area. They will work with the Coast Guard and Army Corp of Engineers for the permitting and review process.
- Safety this year has been the best on record. Since 2005, BNSF's accident rate is down 42%.
- The end of 2018 is the deadline for implementing positive train control. BNSF is in the process of training crews on this technology.
- Across the BNSF network volumes were down in 2016, except agriculture shipping.
- Q1 of 2017 has seen an increase across the board, indicating the markets are coming back.
- Agricultural shipping is up 1.9% year-over-year.
- Coal shipping is up 18.5% year-over-year.
- Industrial product shipping (wood, construction products, chemicals) is up .5% year-over-year. Crude oil volumes are down due to increased pipeline capacity and low oil prices.
- Consumer product shipping is up 5.6% year-over-year.
- The drought in eastern Montana will affect agriculture shipping volumes out of Montana.
- Agriculture shipments are changing in regards to timing. Large soy beans are shipping earlier. More corn is being shipped and later in the season, which changes shipping as a whole on the network.
- BNSF agriculture shipping is averaging 2.8 turns per month. Elevator companies expect trains to get to the Pacific Northwest and back, averaging about 2.5 times per month. Current rate is meeting expectations, and customers seem pleased with service.
- Montana currently only has five cars past due. Servicing BNSF trains has been a priority.
- In April, 55 BNSF employees were laid off in Glendive. For that route, it takes about the same amount of time to drive to the commodity destination. As trucks become automated, BSNF has to realign and make adjustments.

RSCC Discussion

Senator Facey asked about the Seattle to Texas intermodel train that was mentioned in March. Matt Jones mentioned the train was a test route and is still running. BNSF is hoping to keep the train on line for the long term.

Ross Lane mentioned that BNSF is investing in their infrastructure to meet the market demand. He noted that things are changing. It wasn't long ago that coal used to be 25% of total BNSF shipping, and now coal is one of the smallest shipping commodities. BNSF is realigning resources to account for market shifts.

Craig Gilchrist asked how much the new Panama Canal is going to impact Montana. Matt responded that the impact had not been quantified as of yet.

Chairman Jimison asked about passenger rail in Montana and noted he had seen a few BNSF cars with passengers. Ross Lane said that it was most likely an employee tour.

Chairman Jimison discussed the layoffs in Glendive and noted that this had a ripple effect which was felt deeply in the community.

Chairman Jimison asked if double tracking in Eastern Montana has helped with bottlenecks. Matt indicated that it has helped improve bottlenecks and has allowed for more streamlined maintenance.

Ross Lane let attendees know that BNSF has some great information on their social media platforms, including YouTube videos, and encourages members to view them.

Central Montana Rail- Not Present

Montana Rail Link – Not Present

Union Pacific (UP)- Not Present

Presentation by Mr. Terry Whiteside

Terry Whiteside of Whiteside and Associates presented on rail service in the country. Some highlights included:

- Since 1980, Class I Rail has gone from 42 companies down to seven, drastically reducing competition and creating industry monopoly.
- Rail revenues since the economic downturn dropped slightly and then continued to rise. No other industry is able to see revenue increases in depressed economic times.
- After the consolidation of the railroads, four major railroads (CSX, NS, UP, BNSF) control over 94% of all Ton Miles Hauled (TMH).
- Consolidation on rail lines is not true competition and creates a larger monopoly on shipping rates.
- Farmers bear the cost associated with the transportation, even though grain elevators actually pay the freight. Unlike other industries, the farmer/producer cannot pass the freight charges on to anyone else.
- Grain transportation rates where rail-to-rail competition exists are 17-21 cents/1000-ton miles. Canadian grain rates are roughly 16-19 cents/10000, and captive shipping rates in states such as MT, ND, MN, SD, and WI are 25-31 cents/1000 ton miles. Mergers are decreasing the need for competition, creating higher rates.
- In 2015/2016 Congress passed the Surface Transportation Board (STB) Reauthorization Act of 2015.
 - First piece of rail legislation to pass in 19 years.
 - Allows the STB to investigate shipper/carrier issues on their own.
 - Sets up arbitration procedures.
 - Created a complaint database.
 - Better communication structure.
 - Independence from USDOT.
 - Ability to develop HAZMAT shipper requirements and regulations.
 - Expanding STB board from three to five.
- Railroads were mandated by DOT to adopt positive train control (computer system to auto break and stop if danger is sensed) in all trains by 2015. That requirement was extended to 2018.
- Rail Customer Coalition is meeting with the US DOT on STB nominations.
- The Trump administration is aware of the interest from rail shippers to see the STB board take a balanced approach to rail shipper issues.
- The S.H.I.P Coalition (Safer Hauling & Infrastructure Protection) consists of a number of major of shipping companies that are seeking for the government to safely modernize America's truck weight limit on interstate highways to 6-axle and 91,000 pounds.

- Rail is switching to mileage scaled rate rather than a point-to-point rate; mileage scaled rates cost the shippers considerably more. This results in rail pricing other shippers out of the market, including trucks.
- Rate transparency has been an issue for shippers; however, the issue should be addressed with a new portal that is anticipated to be released in August 2017.
- By allowing the STB to regulate, create rules, and facilitate open dialogue, the rail industry will be held to the same standards as other industries.

RSCC Discussion

Jeremiah Langston asked for a brief overview of how railroads set their rates. Terry Whiteside mentioned that the Uniform Rail Costing System (URCS) was developed in 1979-80; he noted that it is an outdated algorithm, and one of STB's goals is to review and revise it.

Matt Jones asked how the costs are made in today's standards. Terry talked about the need to create a fictitious railroad, including the costs associated with construction and maintenance, and then divide it by miles and estimated traffic. Terry noted that this would be a large scale and costly undertaking, but that it needs to be done.

Chairman Jimison asked if the STB is the only rail shipping regulator. Terry indicated that they were the only regulator. Given that the rates and regulations were put in place before the many mergers of the 1990s and 2000's, they need to readdress these and set standards that apply to today's shipping markets. In 1980, when these rates and regulations were created, there were over 40 Class I shippers.

Ross Lane asked about truck rates and mileage. Terry noted that the truck shipping industry is highly competitive, which drives costs down. It doesn't have the same need that rail has.

Matt Jones noted that railroads recognize the significance of relationships with customers and the fact that farmers are their customers. BNSF has invested in these relationships, which has shown good results in Montana. BNSF is working towards partnerships with those they serve and has made progress in the last 10 years.

RSCC Subcommittee Reports

Chairman Jimison noted that the subcommittee reports have been lacking this past year due to turnover and lack of meetings. He suggested new subcommittee committee assignments be made.

Eric Doheny will stay on as the Agriculture Subcommittee Chair. Walt Ainsworth and Kathy Fasso will co-chair the Economic Subcommittee, and Craig Gilchrist will take over the Energy Shipping Subcommittee.

Chairman Jimison requested that Katy and Kraig survey RSCC members and interested parties to determine interest in serving on subcommittees.

Agriculture Subcommittee – No Report Given

Energy Shipping Subcommittee – No Report Given

Economic Development Subcommittee – No Report Given

Other Agenda Items:

Kraig McLeod noted that the contract will be ending July 31 for the current firm which administers the RSCC meetings. After a limited solicitation process, MDT is working to finalize a contract with a new firm.

Next RSCC Meeting

Tentatively, the meeting is scheduled for November 1st. Chairman Jimison requested that a Doodle poll be issued to determine RSCC member availability for this date or alternative dates.

Comments from RSCC Members

Zack Rogala asked about the role the PSC can play in this Council and is looking to be of service. Chairman Jimison asked that future RSCC meeting agendas include a PSC update.

Senator Facey thanked the Council for the information he gains from each meeting.

Adjournment:

Chairman Jimison adjourned the meeting at 2:20 p.m.