



Stevan B. Bobb
Executive Vice President and
Chief Marketing Officer

BNSF Railway Company
P.O. Box 961051
Fort Worth, Texas 76161-0051
2650 Lou Menk Drive
Fort Worth, Texas 76131-2830
Tel: (817) 867-6400
Fax: (817) 352-7122
stevan.bobb@bnsf.com

April 28, 2014

235974

The Honorable Daniel Elliott, Chairman
The Honorable Ann Begeman, Vice Chairman
United States Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423

ENTERED
Office of Proceedings
April 28, 2014
Part of
Public Record

Re: STB Ex Parte No. 724, United States Rail Service Issues

Dear Members of the Board:

This letter supplements the testimony my colleague Bob Lease and I provided at the Board's April 10, 2014 public hearing in the proceeding referenced above. We appreciated the additional opportunity to discuss the service difficulties we have experienced on our network and the root causes of significant, concentrated volume increases and severe winter weather; to engage with our customers and the Board on concerns around our service levels; and provide additional insights into our plans for restoring consistent and reliable service to our customers. Over the course of the day, we heard that our extensive efforts to be open, transparent, and forthright with all of our customers have been successful and well-received by them. However, the message that we have fallen short on executing from a service perspective was also very clear. As I said at the hearing, BNSF is fully committed to marshalling our resources to improving our network velocity and providing the level of service our customers expect.

Our testimony outlined for the Board the contributing circumstances, the short-term and long-term actions necessary to reach service performance levels acceptable to our customers, and our current progress towards recovery by corridor. The Board has made the presentation we provided to Commissioner and staff at the hearing publicly available on its website. The hearing presentation included an appendix that contained the updated view of the key service metrics that we have been providing to the Board on a bi-weekly basis since our meeting on February 18, 2014. We also have posted a copy of our hearing presentation and appendix on our website at www.bnsf.com under the Customer tab. We are posting updates to the metrics contained in the appendix on our website, along with our other service advisories for our shipping community.

I would also like to take this opportunity to highlight several items raised in testimony or discussion at the hearing or in follow-on comments that have subsequently been filed which I believe merit an additional response from BNSF.



April 28, 2014

The Honorable Daniel Elliott, Chairman
The Honorable Ann Begeman, Vice Chairman
The Honorable Debra Miller, Commissioner
United States Surface Transportation Board

Page 2

Fertilizer Delivery Efforts

As we explained in our April 16th response to the Board's April 15th order in STB Ex Parte Docket No. 724 (Sub-No.1), BNSF has implemented a number of measures under our Six-Week Fertilizer Campaign that are designed to deliver a significant volume of fertilizer into the marketplace during the critical planting window, including running fertilizer trainloads with dedicated power in the same manner as our highly efficient grain shuttles. We expect to move 52 trainloads of fertilizer over a six-week period in BNSF-direct unit train service to critical agricultural destinations that we serve. We implemented this plan on April 12th and, since then, have been able to make significant progress against our goal, which is reflected in the initial report we are submitting today in the Board's sub-docket on fertilizer deliveries. We will be providing weekly updates of the metrics contained in that response, which we will also make available on our website.

Emergency Service Orders/Access to Alternative Carriers

At the April 10th hearing, a handful of trade associations and shippers asked that the Board issue emergency service orders or other service directives to maximize recovery efforts on behalf of certain shipper groups. In addition, Vice Chairman Begeman referenced the potential need for the Board to consider directed service remedies in the event of further significant service degradation, though she also commented that such measures were not currently warranted and that the Board was mindful of unintended consequences flowing from such intervention. We are extremely concerned that any agency service directive would seriously undercut the significant efforts being made to return network velocity and, overall, worsen service for the large majority of BNSF's customers. The Board has previously acknowledged that such orders are an extraordinary remedy which should only be used sparingly and where circumstances clearly warrant. Current circumstances do not warrant this extreme step of redirecting the ongoing massive efforts to restore service levels across our network.

BNSF is in the best position to consider the operational and investment steps necessary to increase network velocity for all our customers. We have detailed those plans in our ongoing submissions to the Board and our communications with our customers, and we are doggedly pursuing them. Were the Board to take the extreme step of directing specialized recovery



April 28, 2014

The Honorable Daniel Elliott, Chairman
The Honorable Ann Begeman, Vice Chairman
The Honorable Debra Miller, Commissioner
United States Surface Transportation Board

Page 3

measures to the benefit of a particular commodity group or geographic locale, that step would certainly come at the expense of our other customers and overall network velocity. We note that one particular group, the National Grain and Feed Association (NGFA), recognized the potential for directed service to exacerbate service issues and slow recovery, and asked in its testimony that the Board refrain from micromanaging the railroads' substantial recovery efforts.

We believe that even more severe impacts would likely result from the introduction of alternative carrier access on areas of our network that are currently stressed. Our strong belief is that introduction of a second carrier into congested terminals or line segments would not be helpful to fluidity, and could also significantly degrade our already stressed network's performance. We assure you that we will continue to address each individual customer's service circumstances in a manner that maximizes capacity across our whole network to the benefit of our entire customer base.

Additional Reporting

Several witnesses at the hearing asked that the Board require more specialized reporting of traffic and other data. Specifically, NGFA urged the Board to require increased reporting of service metric information on a granular corridor-specific and commodity-specific basis. While we understand why customers may have made these requests, requiring BNSF to account for our efforts at the level of individual commodities or specific geographic sub-levels publicly on a regular basis would be counterproductive to BNSF's efforts to address the flow issues affecting our network as a whole. BNSF has been and remains committed to transparency about our service recovery with the Board, our customers, and all of our stakeholders, including NGFA and its members. We do not believe that requiring BNSF and other railroads to report additional service metric information that is particularly tailored to satisfy the interests of any trade association's membership will help any of BNSF's shippers receive improved service any faster. Such mandated additional reporting requirements would have the potential to skew service recovery towards the favored shippers (e.g., grain and feed shippers under the NGFA proposal) at the expense of shippers of other commodities, which would not be appropriate.

It is also worth noting that requests for additional service metric reporting requirements like NGFA's appear rooted in the mistaken view that BNSF is skewing its allocation of resources and



April 28, 2014

The Honorable Daniel Elliott, Chairman
The Honorable Ann Begeman, Vice Chairman
The Honorable Debra Miller, Commissioner
United States Surface Transportation Board

Page 4

service towards shipments of non-agricultural commodities that, according to NGFA, provide BNSF higher compensation than agricultural shipments. As one example, NGFA requests that BNSF report average dwell times, train sets, and miles-per-day transited each for grain, coal, and crude shipments for a period beginning *January 2012* through the present. First, as I stated at the hearing, crude and other energy shipments are not being given preference over other commodities moving on BNSF; as we discussed at the hearing, the reality is that crude volumes have seen a velocity reduction as well. We manage our traffic flows to maximize velocity across our entire network. Regardless of commodity, if a customer is experiencing a severe service issue, we escalate the situation and focus resources to avoid a facility or plant having to temporarily halt operations. This process is the same for all shippers and for all commodities including grain, crude or coal. Second, BNSF has been providing biweekly reports on a number of key service and investment metrics, and those metrics provide meaningful information on our recovery efforts and the impact of those efforts on our network. We will continue to provide that data to the Board and to our customers on our website. Providing numerous additional cuts of data back to periods that predate the current service issues by *years* is counterproductive and distracting from the real business of recovery.

Role of Forecasting in Asset Planning

As we discussed at the hearing, it is essential that BNSF continually look to the future and make investments in our network to accommodate our customers' growth. The last four years are our largest capital programs ever; 2014 is a record year for BNSF, with an investment of over \$5 billion. We have processes for short- and long-term planning that are built on volume forecasts which are continually adjusted throughout the year. Those forecasts are based on information we receive from our customers about their expected future volumes, and are dependent on the accuracy of that information. Because of our ability over the years to meet surge capacity, we have seen a trend among many of our customers of relying on the railroad to flex to handle higher volume demand during the course of the year. We experienced a related phenomenon in our agricultural sector where car and shuttle loading capacity went unclaimed in the first eight months of 2013 as agricultural shippers elected to not make transportation capacity commitments until late in the year. In some cases, shippers under-declare volumes in order to preserve their flexibility under their contracts, which tie their obligations to the volumes they declare at the beginning of the year.



April 28, 2014

The Honorable Daniel Elliott, Chairman
The Honorable Ann Begeman, Vice Chairman
The Honorable Debra Miller, Commissioner
United States Surface Transportation Board

Page 5

All of these customers count on the railroad being able to stretch capacity and resources to be able to deliver these stepped-up volumes throughout the year. In recent years, we have been able to fully accommodate that stepped-up volume. In 2013, we actually moved nearly 10.1 million units, an increase of 4.5% compared to 2012. This includes annual volume records for both our carload and domestic intermodal segments. In addition, BNSF accounted for over 50% of the U.S. rail industry's volume growth in 2013, and 100% of the growth among the railroads operating in the Western U.S. Also, in the first quarter of 2014 we achieved record volume levels again in our carload and domestic intermodal segments. Nonetheless, we were not able to meet the significantly higher concentrated demand we were experiencing across several key business sectors as we moved into the third quarter of 2013 – for all the reasons we described at the hearing – which had very real impacts on our customers.

BNSF is as motivated as anyone to ensure that we take all the steps within our control to avoid the circumstances contributing to our current service issues. One important element is obtaining meaningful forecast information on anticipated volume, and that requires the cooperation of our customers. In his testimony, NCTA President Tom Cantor recommended reviewing the Coal Forecasting Tool used by the railroads and shippers to identify volumes to be moved during the calendar year. We agree that such a review should be undertaken, with a particular focus on incorporating more forward-looking information than the current “next 30 days” approach permits. We are also looking at ways to better coordinate with our shippers of other commodities to obtain better information about volumes and flows.

In addition to providing meaningful forecast input enabling the railroad to direct investments to support growth, shippers and other transportation receivers have a role in ensuring that their own planning, including infrastructure investment in their facilities, will support their expected volumes. I would like to address a specific situation that was brought to the Board's attention at the hearing. One specific BNSF customer, Normerica, testified that BNSF's network service issues were causing it to incur significant demurrage bills. In reality, we have been in ongoing discussions with Normerica for several years about the root cause of demurrage charges at their Glendale, Arizona facility – namely, Normerica's failure to increase its rail receiving capacity at Glendale and a reliance on just-in-time delivery. We do not believe that our network performance in the last two quarters is significantly impacting the level of demurrage that Normerica is experiencing on BNSF shipments. In fact, Normerica's demurrage bill for the Glendale facility was lower in 2013 than it was in either of the prior two years. The real issue



April 28, 2014

The Honorable Daniel Elliott, Chairman
The Honorable Ann Begeman, Vice Chairman
The Honorable Debra Miller, Commissioner
United States Surface Transportation Board

Page 6

is that, at nearly any given time, there are more cars destined to the Glendale facility than the facility's three-car unloading track can accommodate. As a result of Normerica's failure to adequately plan and invest in its own facility, BNSF regularly ends up having to use critical yard capacity to hold Normerica's excess cars, which has a ripple effect for our network and other shippers. We have encouraged Normerica to expand their rail receiving capacity to match their volume needs for a number of years now, and will continue to have that dialogue with them.

Amtrak

In his testimony before the Board, Amtrak's Vice President of Operations made several comments that, simply put, do not reflect the reality of Amtrak's relationship with BNSF and our cooperative operating practices. First, Mr. Stadler described what he viewed as a causal link between the D.C. Circuit's ruling that certain aspects of the Passenger Rail Investment and Improvement Act of 2008 were unconstitutional and a decrease in Amtrak's service performance. However, with respect to BNSF, the facts do not support such a claim. Outside of service problems BNSF has had on our northern Transcon and affecting Chicago, Amtrak service running on BNSF's network has not experienced any meaningful degradation in on-time performance. If BNSF had suddenly changed its long-standing cooperative relationship with Amtrak in response to the D.C. Circuit ruling, one would expect to see service declines across our network rather than isolated to the northern Transcon and Chicago impacted services.

Second, Mr. Stadler stated that he did not believe that the railroads were meeting their statutory obligation to prioritize Amtrak shipments in the places where they move across freight networks. While on time performance is not equivalent to dispatching priority, looking at such data can be useful. However, to be meaningful the data must reflect delays that are caused by matters within the control of the host freight railroad, which our operating agreement with Amtrak does. Looking at on time percentages for all causes of delay does not provide any meaningful gauge of the host railroad's performance. When looking at delays that are within the control of BNSF, Amtrak performance on our network outside of the northern Transcon and Chicago impacted services has remained very strong.



April 28, 2014

The Honorable Daniel Elliott, Chairman
The Honorable Ann Begeman, Vice Chairman
The Honorable Debra Miller, Commissioner
United States Surface Transportation Board

Page 7

Conclusion

As we testified at the hearing, BNSF remains fully committed to restoring our network's service velocity as rapidly as possible; other than safety, at our railroad we have no higher priority. We are committed to providing our customers with real, meaningful, and transparent information as well. Most importantly, we understand that BNSF is a network – a network with thousands of customers. Our efforts are focused on restoring our network's overall velocity and expanding its capacity – steps which will benefit all of those customers. However, we are opposed to taking steps on our own, or that may be ordered by any regulatory agency, that would have the effect of further congesting our overall network by imposing short-term service solutions on the few shippers who have asked for you to take such an extraordinary step. Steps such as this will have the quite predictable effect of worsening network performance overall and lengthening the time it will take to restore our service to meet our customers' expectations.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stevan B. Bobb". The signature is stylized and cursive.

Stevan B. Bobb
Executive Vice President and Chief Marketing Officer