

Senator Thune's Testimony
STB Service Hearing
September 4, 2014

Thank you Chairman Elliott, Vice Chairman Miller and Board Member Begeman for holding today's follow up hearing on the on-going service problems in the U.S. rail network, the rail industry's efforts to address these problems, and potential next steps that might be available to improve service. I appreciate the opportunity to provide this statement for the record.

Next week, at my request, the Senate Committee on Commerce, Science, and Transportation will hold a hearing on rail service issues. Unreliable rail service, even when concentrated in a single region, has a significant impact on systemwide performance, and our nation's ability to compete in global markets. I have worked to hold the railroads accountable, and I believe today's hearing, and the Senate hearing next week will shed additional light on the magnitude of the current emergency and actions that can be taken to reduce the severity to shippers and various sectors of our economy.

In April, when the Board held its first hearing on this topic in Washington, D.C., I provided testimony highlighting the importance of reliable rail service to my home state of South Dakota and gave examples of how these disruptions in service were having direct impacts on South Dakota businesses, both large and small. Today I thought it would be helpful to provide an update on how the continued service difficulties have impacted critical South Dakota industries.

Before I do, I want to highlight two additional developments that have occurred since the last hearing which I think are important to keep in mind. First, as the Board knows, the Canadian Pacific (CP) railroad sold roughly 660 miles of its rail line in South Dakota, Wyoming, Nebraska and Minnesota to Genesee & Wyoming Incorporated on June 1, 2014 creating the Rapid City, Pierre, and Eastern (RCP&E) Railroad. While this sale has not resolved the ongoing rail service challenges faced along the line, it has brought increased certainty to the shippers who rely on this critical rail link. I thank the Board for your quick approval of the sale. There are still many improvements that are needed, but I applaud the RCP&E for the work they have done thus far, especially for the increased number of cars and locomotives they have brought to the line and their regular communications with customers.

Second, is the impact the projected record harvest will have on the already strained rail system. As you know, the primary driver of the South Dakota economy is agriculture. While we were fortunate to set harvest records last year in corn production, the on-going rail challenges have resulted in a shipping backlog of last year's grain. For example, on June 1, 2014, the last time a grain storage use assessment was issued by the U.S. Department of Agriculture (USDA), there were 281 million bushels of grain still in storage from last year, filling 28 percent of total storage (both on and off farm) capacity within the state. For some context, the three-year average for grain storage use on June 1st is approximately 218 million bushels, or 23 percent of total capacity.

While this five percent difference seems rather small, when coupled with the near record 2014 wheat crop in final stages of harvest and upcoming potentially large corn and soybean harvests

we anticipate later this fall, and the on-going rail service challenges, it is likely that total storage capacity will be exceeded, and harvested grain will be piled on the ground where it is susceptible to spoilage and waste. Final wheat harvest numbers have yet to be tabulated, but projections from the USDA estimate South Dakota's 2014 wheat harvest at 108 million bushels, a 14 percent increase over the three year average.

The corn and soybean harvests, which will be starting in the coming weeks, are also projected to be record breaking: 781 million bushels of corn, or 17 percent over the three year average and 196 million bushels of soybeans, or 23 percent over the three year average. This is a total of 1.085 billion bushels of grain from South Dakota if estimates hold true, and many in South Dakota believe this year's harvest will be even bigger than projected. Factoring in the grain still in storage from last year, South Dakota's one billion bushels of grain storage capacity, and the ongoing transportation challenges, one can easily see why some projections show that South Dakota will have at least an 18 percent grain storage shortfall at the end of fall harvest. Reliable rail service is absolutely critical in getting this grain to market.

With these facts in mind, I will provide some updates. In April, I told the Board about Redfield Energy, located in Redfield, South Dakota, which is a 55 million gallon per year ethanol producer served by the Burlington Northern Santa Fe (BNSF) Railroad. At that time, they leased 178 tanker cars and 72 grain cars to move their ethanol and distiller grains to market.

Redfield Energy's service issues began in mid-December. Before the service delays arose they averaged one turn a month. In April they experienced rail turns averaging up to six weeks, and now four months later their turn times are still below normal at 38 days.

Redfield Energy has limited storage capacity. When its tank cars are not returned on-time and the ones they have on-hand are full, the company is forced to slow the plant's production. As you may remember, shutting down an ethanol plant is not only inefficient, it can be disastrous. During the winter this can result in frozen or exploding pipes.

In an effort to try to protect against this worst case scenario Redfield Energy has taken numerous steps to mitigate the impact of its rail service challenges. For example, they have increased their tanker and grain car fleet size. Initially, they leased 10 additional tanker cars on a month to month basis, but those cars were recently returned. They were also successful in leasing 45 additional tanker cars that are slowly coming on-line, but at a significantly higher price. On the grain side, they were able to obtain a lease for 30 additional cars, but delivery isn't expected until August of next year.

Also, over the summer they began construction on two one-million gallon storage tanks. Their on-site storage capacity will be nearly doubled and it will provide another short term storage solution to prevent a plant shut down in the future, particularly during the winter. Despite the additional cars and increased storage capability, Redfield Energy has been forced to run their plant at reduced capacity all year which has cost them millions of dollars in lost revenue.

North Central Farmers Elevator (NCFE), located in Ipswich, is another South Dakota business that has suffered financially due to poor rail service. They are a farmer-owned cooperative that

serves over 2,500 producer-members in north and south-central South Dakota. In April, I told the Board how NCFE had placed an order with Canadian Pacific for rail cars for January, but did not receive those cars until March. This delay cost NCFE, and the producers they serve, \$1.78 per bushel in unexpected expenses. In addition to the inadequate service, NCFE also expressed frustration with the communication between themselves and CP.

Since RCP&E took over, the service difficulties have continued, but the communication has greatly improved. Specifically, NCFE has been ordering approximately 75 cars per week, but the most they have received is 50 cars, and that was only once. In all other weeks, they have received 25 or less. In fact, for three separate weeks they received no rail cars. The lack of cars is the result of CP failing to provide the RCP&E with the cars and locomotive power they promised would be available at the time of the sale.

In fact, NCFE presents a story very similar to other RCP&E customers who have seen customer service and communication improvements, but are still waiting for rail service to rebound. Another such shipper is Dakota Mill & Grain, headquartered in Rapid City. I'm pleased that Jerry Cope is appearing at today's hearing to present his perspective as a shipper when it comes to the challenges his company and other elevators in South Dakota face. Dakota Mill and Grain has a total of seven rail facilities that serve 500 customers in western South Dakota. Dakota Mill & Grain has seen several changes since the CP sold the DM&E line. Thankfully, in part due to the STB's action in June to approve the sale of the rail line, poor communication with the railroads has been replaced by increased transparency, with new reporting requirements highlighting the CP's and BNSF's plans to improve rail service in South Dakota. Dakota Mill & Grain's backlog of more than one thousand cars has been significantly reduced. Unfortunately, for the past few months, due to a shortage of CP locomotives, loaded grain cars have been sitting idle for a week or longer on the RCP&E line making grain buyers reluctant to purchase their grain.

The final example I provided in April was Border States Cooperative located in Wilmont, South Dakota. Their grain elevator is located off the state's major rail lines, and are on a short line owned by Twin Cities & Western Railroad Company, the Sisseton/Milbank rail line. If you remember, instead of having to wait long periods of time for car orders, they were told that they could not even place new car orders until August, but could possibly be served from a waitlist if congestion eased, turn times increased, and cars were available.

Due to recent and unusual rain in the region, the harvested wheat has been wet and must be dried before it can be shipped or stored. This means that Border States Cooperative has had less demand for rail cars in August than in years past, which has allowed them to keep up with the limited and irregular rail cars they have been receiving. The wet weather is expected to delay the harvest of soybeans and corn in the region, which has eased the earlier concern that Border States Cooperative was expecting. If you remember, due to their limited size, Border States Cooperative uses the same grain storage bins for wheat, soybeans, and corn. Each grain must be removed before the next can be stored. Even with these wet crops, backlogs are still possible in the future if rail cars do not arrive to move the wheat before the corn and soybeans are harvested.

As you can tell by these few examples and the other testimony you have heard today, the rail service constraints facing South Dakota shippers are having a damaging impact on South Dakota's economy. However, agriculture focused businesses are not the only businesses facing challenges. Whether it's bentonite clay, coal, chemicals, or even cement, many of South Dakota's businesses that depend on reliable rail service, either for key inputs or to ship their products to markets, have been adversely affected in one way or another by rail service delays – not to mention the costs related to increased demand and low commodity prices.

It is imperative we find a solution to these very real service problems. To that end, some positive steps have been taken to address this serious issue. I have appreciated the meetings, calls, and letters the BNSF, CP, and the RCP&E have had with me and my staff about these issues since the beginning of the year and I appreciate the pro-active steps BNSF has taken to hire new employees, acquire additional equipment, invest in necessary maintenance and improvements, and provide additional service where possible.

As I mentioned before, RCP&E's actions since acquiring the line have been helpful, along with their continued commitment to work with the CP to provide reliable service in South Dakota. I again encourage the BNSF, RCP&E, and CP to double down on these efforts and continue to plan ahead for the future needs of rail shippers in our region, especially in light of increased demand for rail service from most almost all rail sectors.

I again would like to thank the Board for holding this hearing and including my testimony in the record. Your continued attention to this matter, including this year's fertilizer and grain orders, have truly made a difference. I would especially like to thank you and particularly Board Member Begeman for the recent decision to amend the grain order to include the additional service metrics I suggested in July. I believe these metrics will not only provide the shippers with the additional transparency they have been seeking, but give them more information to plan ahead for the future. Finally, I would like to commend the STB's Office of Public Assistance, Government Affairs, and Compliance, their outreach efforts have been beneficial to many South Dakota's shippers.

Thank you again, I look forward to continuing to work with you on issues affecting South Dakota and other matters within the jurisdiction of the Senate Commerce, Science, and Transportation Committee.