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January 29, 2015

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The Honorable Debra Miller, Chairman
The Honorable Ann Begeman, Vice Chairman
United States Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423

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Dear Members of the Board:

I write in response to the Board's December 30, 2014 order in Ex Parte No. 724, *United States Rail Service Issues* relating to BNSF's contingency plans around addressing critical coal shortfalls experienced by BNSF shippers.

Overview

As we enter the first quarter of 2015, BNSF maintains our focus on providing consistent and reliable service to our coal customers and delivering as much coal as possible into the marketplace. We continue in our efforts to maximize velocity across our network, and we have seen improvements in key performance areas like network fluidity. The most effective way to address coal stockpile fluctuations is to improve velocity across our network to a level where we are no longer managing resources to respond to critical situations. While we have seen the recent improvements in network fluidity benefit our coal customers in terms of rising stockpiles, we also continue in the immediate term to work with our coal customers to identify critical stockpile situations and to implement appropriate responsive measures.

The Board's December 30, 2014 order in the above-captioned service proceeding directed BNSF to provide a detailed description of the contingency plans that BNSF would use to mitigate critical shortfalls of coal. In this letter, I describe in more detail the various elements of BNSF's "coal customer escalation process," an existing process that BNSF has utilized to address potential concerns arising from recent service issues in coal transportation. These efforts include a process for identifying customers experiencing critical stockpile levels and various tools that BNSF has available to address critical situations. Measures that BNSF would take in the future to deal with critical coal stockpile shortages would be an outgrowth of BNSF's existing process modified to account for the specific circumstances of individual shippers.

These contingency measures are extraordinary and costly, but they have also been effective in dealing with problems that have previously arisen. BNSF has demonstrated its ability to implement measures to effectively mitigate critical stockpile situations. As shown in Attachment A, as of January 23, 2015, BNSF has been able to add coal representing 440 days of coal burn to the coal stockpiles of customers identified as having critical stockpile shortages through the processes described here. As a result of the steady improvements that have been seen, BNSF does not believe it is necessary to consider more wide-ranging changes in regulation to address the present service situation.



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In describing BNSF's contingency planning, it is important to note at the outset that there is no one-size-fits-all, pre-prescribed formula of responsive measures for every critical stockpile situation. On the contrary, when a critical coal situation at a particular plant is identified, BNSF teams review the specific circumstances, including contributing factors, and determine which responsive actions will be most effective and appropriate to address the situation while maintaining overall network fluidity. As explained in more detail below, such actions may include heightened operational focus, equipment reallocation (including both trainsets and locomotives), increased crew coverage, rerouting, and/or gateway modifications.

It may be necessary or appropriate for BNSF to activate a subset (or even just one) of these countermeasures in response to a specific critical stockpile situation. As explained in more detail below, there are a number of factors that can contribute to diminishing stockpiles, including circumstances unrelated to railroad performance. These factors can greatly impact whether responsive countermeasures adopted by BNSF will be fully effective. Frequent communication with our customers is an absolute necessity to diagnose critical situations, and to understand the driving factors and appropriate countermeasures. Moreover, the effectiveness and appropriateness of countermeasures can change over time even for a particular customer. For that reason, it is of critical importance that BNSF have the flexibility to adjust service recovery efforts as network conditions and the circumstances of individual shippers evolve. Constant change is a core characteristic of our operating environment, but even in that context we have also seen short-term flux in the demand profile of our customers. Strict adherence to pre-formulated measures could seriously impair BNSF's ability to respond to the needs of individual shippers experiencing critical shortages and be detrimental to our overall network performance.

Finally, the measures I describe here have been designed to address the specific concerns that arose over the course of the last year for our coal shippers as a result of service difficulties on BNSF's network. This process for addressing critical stockpile shortfalls is not very different from the contingency measures railroads implement in response to temporary service disruptions like flooding or a major derailment. We expect that a return to consistent performance will also mean a return to normal operational and resource planning for consistent, ratable service that supports the annual demand of our utility customers.

BNSF's Process for Identifying Coal Plants with Critical Stockpile Challenges

As the Board knows, BNSF talks regularly with our customers and, with the onset of the service challenges in 2013, we built into those conversations a discussion about our customers' stockpile levels. The first step in managing an emerging critical situation is to identify situations where responsive action might be necessary. BNSF's current coal customer escalation process starts with the information our customers provide BNSF assessing the stockpile levels at the individual coal generating facilities we serve; these assessments specifically focus on "days of burn," which is an estimate of the number of days a stockpile of coal should last based on historic consumption patterns at the plant. Days of burn appears to be the key measure that utilities use in their own industry to provide forward-looking estimates of demand.



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It is important to remember that BNSF has no direct visibility into our customers' stockpile levels. We rely entirely on our customers to provide timely and accurate information about their respective stockpiles. While the days of burn information we receive from our customers is a necessary element in our coal customer escalation process, it is an imperfect reference point even for short-term management of critical supply situations. Some customers provide stockpile information to BNSF more regularly than others. It also appears that utilities may have different methodologies for judging days of burn, and BNSF is not in a position to reconcile those differences. In addition, while rare, some utilities may seek to use the stockpile information they provide as an opportunity to secure preferential treatment or as a backdoor way to influence rail service – not to address critical stockpile shortages related to railroad service, but to respond to the utility's changing short-term demand profile (e.g., managing the coal burn in response to the rise and fall of gas prices). These same challenges make reliance on days of burn information from our customers a necessary part of our contingency planning but unworkable as a long-term tool for planning service and capacity under normal operating conditions.

BNSF's Process for Distributing Information about Critical Stockpile Situations

The second element in BNSF's contingency planning for critical stockpile shortfalls is a process for making sure that the information about critical stockpile levels is distributed to BNSF personnel that can act to address the situation. As detailed above, BNSF relies on customers to provide information about the level of coal stockpiles at their generating stations. BNSF's contingency planning involves several measures for notifying relevant personnel that special action may need to be taken in particular cases.

- When we receive information indicating that a customer stockpile is at or below 20 days, we internally designate that customer as "critical." We also specifically flag customers within that "critical" group that are experiencing single digit stockpile levels (meaning below 10 days of burn). As network service improvements result in general stockpile increases, we have seen fewer instances of burn levels hitting less than 10 days; as a result, we can adjust our efforts to focus mitigation measures and accelerate recovery for facilities at or below 20 days.
- On a going forward basis, all critical coal customers are identified in our internal daily "critical customer" broadcast communication which goes out to key operating personnel in BNSF's Fort Worth headquarters and in the field. That customer list is incorporated into the many regional and division communications that are continually distributed to the field operating teams. These teams have key responsibilities in creating and modifying trip plans for the cars and trains moving across our system.
- When a coal customer does notify BNSF that it has less than 10 days' worth of coal in its stockpile, in addition to being included on the critical customer list, there is a separate report that is generated twice a day by service design personnel manning the Coal Desk (with responsibilities for coordinating coal moves across the network and managing trainset levels) that is circulated to the same Fort Worth and field operating teams discussed above. The report identifies the physical location of each train set moving coal to that utility, as well as the current disposition



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of each train, and it provides a snapshot of the arrival pipeline of trains for the next 3 days. These communications are also provided to company leaders in all functional areas.

- We also provide the Board's staff with updates on the customers who have plants on this critical list on our weekly service call with the Board's Office of Public Assistance, Governmental Affairs, and Compliance.
- A customer's plant will be included in the critical customer communications described above until it is no longer in critical status (i.e., its stockpile levels are above 20 days).

Operational Measures Available to Address Critical Stockpile Situations

Inclusion of a coal utility on the critical customer list and the additional reporting about utilities with less than 10 days' worth of coal in their stockpiles creates visibility and focus at multiple levels within the BNSF operations groups responsible for designing and implementing service plans. Once a critical customer situation is identified, a range of operating decisions that are tied directly to existing network conditions and the specific circumstances of the customer can be made to enhance deliveries of coal. It is not possible or practicable to prescribe a set of rules or procedures to be followed. In many cases, the measures necessary to improve service involve modest changes to train schedules or maintenance plans that are based on existing operating conditions. In addition to these particular operating adjustments that can be taken to address the circumstances of individual shippers with critical stockpile concerns, several types of short-term and longer-term measures are available to address critical stockpile situations, as discussed below.

- Trainsets
 - BNSF can also adjust the number of trainsets in service to maximize velocity and coal deliveries. In a prior submission to the Board, BNSF described a recent effort to strategically remove trainsets from service to decongest the system and improve velocity. Under appropriate circumstances, this strategy can be used to improve service on particular corridors or routes.
 - One important lever available to address critical stockpile needs is to adjust the number of unit trains in service to customers on the critical list in the short term to create additional throughput. Such increases, however, must be managed in the context of the overall network and the specific corridors crossed in the route of movement, as adding trainsets can sometimes result in reduced velocity. Similar to a highway where adding more cars leads to more congestion, an increased number of sets running on the key coal corridors can result in lower velocity and less overall coal being delivered if not properly managed.
 - Because of the direct connection between the number of coal trainsets in service and overall coal velocity, adding trainsets to serve a plant on the critical list usually works best when those trainsets are borrowed from service to another plant for the same customer, thereby increasing the overall number of loaded trainsets directed towards the critical plant without



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increasing the overall number of coal sets trying to move across the system. BNSF's Coal Desk is in constant communication with utility customers to ensure that we are getting optimal use out a customer's trainsets, and in many cases can adjust trip plans for trainsets within a customer's dedicated fleet in real time.

- Making use of a customer's existing fleet is often necessary because incremental trainsets may not be available from the customer or from the railroad. In some limited instances, sets can be leased for short periods from other utilities or third-party lessors.

- Locomotives

- BNSF may be able to adjust the allocation of locomotive resources across the network in response to localized increases in the number of trains holding for power. Yard personnel can manage available locomotives to ensure that locomotives are available for delivery of coal to critical customers.
- Such measures may involve moving locomotives supporting one business unit into another business unit on a temporary basis. This is most effective and least disruptive when extra locomotives can be secured from business units experiencing seasonal reductions in demand.
- While purchases of new locomotives requires significant lead time, on some limited occasions, BNSF may have the opportunity to enter into short-term locomotive leases. In 2014, in addition to these short-term temporary leases, BNSF entered into long-term leases for approximately 100 locomotives, in addition to purchasing more than 500 new locomotives.

- Route and Gateway Adjustments

- BNSF implemented temporary rerouting of traffic at various times in 2014 to avoid congested corridors or yards, maintenance and other service disruptions. Rerouting of significant traffic volumes must be carefully reviewed because of potential negative impacts to service for other business segments and overall network fluidity.
- In a limited number of cases, BNSF has been able to work with connecting carriers to adjust operational interchanges in order to avoid congested facilities and interchange joint traffic using alternative facilities where it will increase throughput and allow for more consistent service planning.
- In limited circumstances where a utility can receive tons by another mode (e.g., barge or truck) or can be served directly by another rail carrier using independent facilities, BNSF has accommodated such customer requests.
- Gateway changes may require BNSF to loosen contractual restrictions. Moreover, the circumstances must be closely reviewed to determine that throughput can be improved without a negative impact to the overall network.



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- Maintenance Planning
 - There may be options for minimizing the immediate impact of maintenance windows on shipments to utilities experiencing critical stockpile shortfalls, and that is often done through the operational focus created by the critical customer list and rerouting described above. There are obvious drawbacks to more extreme measures such as delaying essential maintenance and expansion on key coal routes in order to minimize service disruptions.
- Crew Management
 - Personnel adjustments can also be made over the longer term to address service issues. In 2014, BNSF demonstrated its ability to hire into key operating positions on a large scale, hiring and training 3,649 Train, Yard and Engine new employees and 2,779 Engineering and Mechanical new employees throughout the calendar year.
 - In addition, BNSF has some ability to move crews and other operating personnel around the network to mitigate shortages in key terminals. Generally speaking, temporary relocations can be accomplished in less than a month under our current labor agreements, which is significantly quicker than the four to five months it can take to hire and train new employees.

Additional Longer-Term Measures to Address Service Problems

- Infrastructure: In addition to the operational measures described above, BNSF has implemented and continues to implement longer-term measures to address service difficulties in coal transportation. BNSF has detailed in other submissions the large capital investment being made to support the coal network and to improve coal service. A number of key projects have or will come online in 2014 and 2015 and we are seeing the operational benefits from those investments. Included in our \$6 billion capital plan for 2015 are two multi-million dollar double track projects on the Ravenna sub that have been undertaken to address the need to move significant coal volumes in the short term. In general though, given the long timeline associated with most infrastructure projects there is limited ability to use infrastructure investments to alleviate short-term critical service situations. Thus, infrastructure investment is a much more long-term strategy for addressing coal service issues.
- Winter Preparedness: As detailed in other submissions to the Board, BNSF has implemented enhanced Winter Action Plans for each division, which include division-specific processes for identifying and responding to emergency conditions. BNSF has also added a number of resources to address service disruptions resulting from weather events, including equipment improvements, rapid response recovery teams (six of which are strategically positioned coal-critical across the Northern region), and increased numbers of maintenance of way employees.



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These are the primary measures that BNSF has identified to mitigate critical stockpile situations. These measures can be immensely costly to undertake and have the potential to be disruptive to the overall goals of improving network velocity for all our customers. As a result, BNSF reviews the circumstances around each situation to determine what measures are appropriate and will ultimately be most effective.

It is also necessary to look at the circumstances that contributed to the shortfall situation. In many cases, the contributing causes are predominantly railroad service disruptions like maintenance windows, congested facilities, equipment shortages or crew shortages. In those instances, BNSF has been able to significantly mitigate delivery shortfalls through one or more of the measures identified above. In some cases, weather is the primary cause and, while beyond the railroad's control, can be effectively mitigated through these measures as well. In a very few cases, diminishing stockpile situations have been exacerbated by conditions within the control of the individual utility, such as dispatch patterns resulting in demand beyond expected levels. Mitigation measures identified above may be less effective in addressing these types of shortfall situations, and BNSF may at some point in the future need to consider whether it is appropriate in these situations to undertake measures that could negatively impact our ability to provide reliable service to our entire customer base.

Conclusion

The vast majority of our customers have demonstrated great patience as we work to return to the service levels that they expect from us, cooperating with us to avoid critical stockpile issues when possible and to implement appropriate measures by both parties when critical situations do arise. As the Board noted in its December 31 decision, the vast majority of our customers have stockpiles well in excess of the 20-day measure that triggers our coal customer escalation process. According to the EIA data for October 2014 cited by the Board, only 8 percent of utilities nationwide maintained stockpiles of less than 30 days. That report also does not reflect the improvements we have seen in December and January. As our service continues to improve, we look forward to our full return to consistent, reliable performance for our coal customers and a return to our normal operational and resource planning processes.

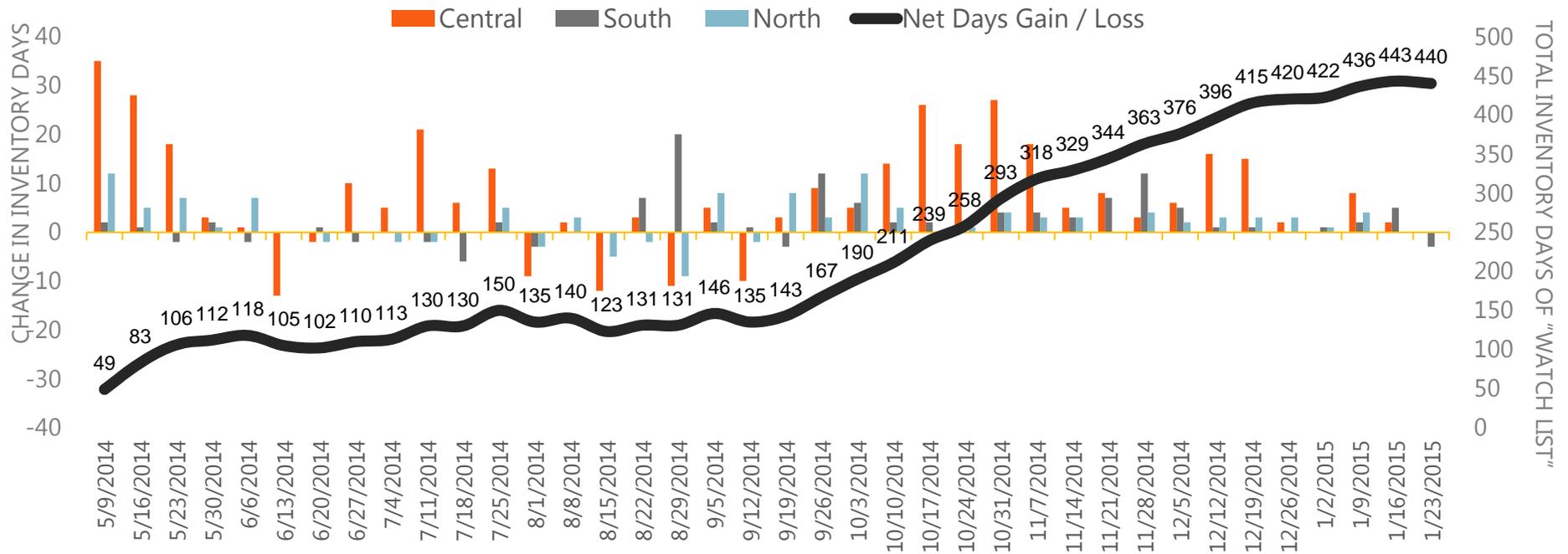
Sincerely,

A handwritten signature in blue ink, appearing to read "Stevan B. Bobb". The signature is fluid and cursive, with the first name being the most prominent.

Stevan B. Bobb

Coal Stockpiles

CRITICAL COAL STOCKPILE CUSTOMERS NET INVENTORY DAYS GAIN / LOSS



Source: BNSF Internal Data, through Jan. 23, 2015. "Watch List" customers are defined as under 20 days of stockpile as self-reported.

