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October 28, 2014

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The Honorable Daniel R. Elliott, III
Chairman
The Honorable Deb Miller
Vice Chairman
The Honorable Ann D. Begeman
Member
United States Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423

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October 28, 2014
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Dear Chairman Elliott, Vice Chairman Miller and Member Begeman:

I write on behalf of BNSF Railway (BNSF) in response to the Surface Transportation Board's procedural order issued October 24, 2014 directing an expedited response to the October 23, 2014 petition of Western Coal Traffic League (WCTL). In its petition, WCTL asked for an order requiring BNSF to "submit a coal-specific service recovery plan" for the Board to "approve or revise, and most importantly, enforce." In this letter I will update the Board on our efforts to restore coal service in advance of our filing on November 3, 2014. In addition, BNSF will respond more fully to the original Petition of the WCTL according to the expedited schedule directed by the Board.

Communications

At the outset, I would like to emphasize that BNSF is very much aware of the challenges that our coal customers face in light of our service challenges. That is because BNSF communicates with our coal customers every single day about stockpile levels, train and set status, day-to-day service challenges, and the short-term and long-term measures that we are undertaking to remedy those challenges. As the Board knows, BNSF has undertaken an extensive campaign to provide meaningful, real-time information to all our stakeholders around our service challenges, our short-term and long-term plans to increase network velocity, and our progress against those plans, particularly with our coal customers. We do so through targeted discussions as well as broader customer communications, service advisories, podcasts, and other regularly updated reports. BNSF is committed to providing full transparency to our customers.

BNSF has also been engaged with the Board and staff for many months specifically on coal service challenges and impacts to our customers, and our ongoing service restoration efforts. We have provided a significant amount of information to the Board through hearing testimony, formal filings and informal reporting, and weekly calls with Board staff. Most recently, on October 22, 2014 BNSF submitted its initial weekly report in response to the Board's October 8, 2014 service reporting order. As you are aware, that extensive weekly report requires a number of coal-specific metrics, including –

- (i) average train speed for coal unit trains;

- (ii) origin dwell times for coal unit trains;
- (iii) number of coal trains held for longer than 6 hours with detail on cause;
- (iv) number of cars carrying coal that have not moved in more than 48 and 120 hours; and
- (v) average daily coal loadings versus plans versus actuals for the PRB and other BNSF-served regions.

Those are in addition to all of the other reported BNSF network metrics, including as dwell times in key terminals, the total number of gondolas online, and operating conditions in the Chicago gateway like terminal inventories and trains held for delivery in Chicago. In fact, these Board-ordered metrics include many of the specific disclosures requested in the WCTL petition.

BNSF believes that none of the steps requested by WCTL would improve either the communications or service BNSF provides to coal shippers overall beyond those that BNSF has already taken. As a result, BNSF believes that the broad measures sought by WCTL in its petition (and any other BNSF coal shippers that may intervene) are unnecessary, inappropriate and will be counterproductive. BNSF is also concerned that the Board, with the issuance of the comment schedule in its October 24, 2014 order, has initiated a proceeding at the request of a trade association that seeks to affect the rights of, and BNSF's obligations to, specific shippers and receivers of coal who themselves are not parties to this or any formal proceeding.¹

BNSF Steps to Improve Coal Service

In addition to communications, BNSF is devoting all practicable capital and operating resources to ensuring timely and sufficient deliveries of coal. The most important steps we are taking to restore coal service involve the numerous short-term and long term measures that we are taking to increase velocity. While we have discussed these steps a number of times, I would like to summarize the most important, with an emphasis on those with the greatest impact to our coal customers.

- **BNSF's 2014 Infrastructure Goals to Increase Capacity:** BNSF set goals at the beginning of 2014 to add capacity in the key areas of hiring, locomotive and car acquisitions and capital investment in maintenance and expansion, representing \$5 billion. We expect to exceed each one of those and have even recently increased our 2014 targets for hiring, locomotive acquisitions and for expansion capital and replacement/maintenance capital to reflect where we expect to be at year end. On the hiring front, we have net increased our Train Yard & Engineer (TY&E) employee count by 13 percent and our engineering workforce by 11 percent year-over-year. For our entire operations department, the head count of scheduled employees has increased by more than 3,800, or 11 percent, which has significantly outpaced volume growth and attrition. We also continue to add locomotives in record numbers and year-over-year, our road locomotive count is up more than 600 (and 27 percent since October 2012), well in excess of what volumes would dictate. The additional availability of power and crew is a key part of our efforts to improve coal service.
- **Northern Corridor Infrastructure Investments:** These new resources are being focused on our most constrained areas on our network, which includes the parts of our network relied on by our coal customers. Specifically, BNSF is investing more than \$1 billion for network capacity expansion alone, with a significant emphasis on the Northern region, which impacts a number of our coal customers. Specifically, we have a multi-year project, with a total investment of \$396 million to double track almost the entire 150-miles between Minot and Snowden. This year alone, 47 miles of double track have gone into service and we

¹ While it does reference certain utilities, WCTL's petition does not identify WCTL's current members, and does not identify the individual WCTL members who have signed on to this specific petition.

expect another 8 miles in service by the end of 2014. The double track project will be substantially completed in 2015.

- **Coal Route Infrastructure Investments:** Since May, we have added new projects to our 2014 plan, including two double-track projects in Nebraska to support our coal route.
- **Additional Investments Across the Network Benefitting Coal:** Included with this letter as Attachment A is a current overview of the terminal and line capacity expansion projects for 2014 by region as well as additional details regarding projects on six core subdivisions handling coal traffic. While the Northern part of our network carries significant coal volumes, we have coal customers who rely on consistent service across all of our operating regions. We are certain that the investments we are making across our network will result in a stronger railroad and will support improved service for all our customers, including coal-fired utilities.
- **Additional Steps to Improve Fluidity on the Coal Network:** In addition to expanding our capacity, we have significant capital in 2014 aimed at maintaining our network to the highest standard. In 2014, our work gangs will replace 3.6 million railroad ties, perform 650 miles of undercutting, clean 4,900 miles of shoulder ballast, perform 8,500 track miles of division surfacing and 4,900 track miles of high-speed surfacing, and complete 205 bridge projects. While these projects may require a working track window or outage to permit crews to work safely, potentially causing longer trip plans in the short term, these investments are critical to maintaining consistent service across our coal network in the short and long term.
- **Winter Preparedness:** We have significant experience operating safely in winter conditions and have undertaken our annual measures to prepare our workforce, our locomotive fleet, and our specialized winter weather equipment and supplies. We have prepared enhanced Winter Action Plans for each division, which include division-specific processes for identifying and responding to emergency conditions. In addition, we will enter the 2014 winter season with several new resources in place to better handle extreme weather. Activities in this area include installation of switch heaters, outfitting locomotives with new winter mitigation equipment, and augmenting our snow removal equipment fleet. We have also added nine new rapid response recovery teams, six of which are strategically positioned coal-critical across the Northern region. In addition, we are keeping on over 300 additional maintenance of way employees who are traditionally furloughed during the winter season to assist with snow removal across our Northern territory. These employees will be utilized to establish 'after-hours' rapid response teams on the track side. In addition to these increases in response capabilities on the North Lines, we have also established similar after-hours MOW Rapid Response teams on key corridors across the Central coal route. These 'track' rapid response teams complement our Mechanical rapid response teams with a common goal of minimizing the impact of equipment and infrastructure-related service interruptions.
- **Role of Set Count in Driving Velocity Improvements:** In recent weeks, BNSF has seen our aggressive capital investment lead to steady gains in velocity and loadings on our coal network, but we are still challenged with fleet productivity since we have too many coal sets on our network for fluid operations. Understanding that we under-delivered against coal demand through the winter and the spring, we have grown the number of coal sets to the point where we are operating a record number of sets for any sustained period. Similar to a highway where more cars leads to more congestion, an increased number of sets running on the key coal corridors results in lower velocity and less overall coal being delivered. As a result we have determined that to better operate the network and deliver more tons of coal

overall, we need to decongest the network by strategically removing a small number of coal sets.

WCTL's petition makes much of this action, and further alleges that approximately 60 sets will be removed from service. WCTL is dramatically misinformed. It is true that BNSF has been approaching individual coal customers where we have identified an opportunity from an operational and contractual perspective to reduce fewer than 30 set counts on the most congested lanes, freeing up line capacity critical to improving overall velocity, ultimately delivering more coal for our utility customers. This is not an unfocused, across-the-board reduction as WCTL implies, but instead involves situation-focused discussions with individual customers that we have undertaken because this action will have a significant positive impact on car velocity and deliveries. We have explained the positive impact to those individual customers we have approached regarding appropriate levels of train sets in their service (most of whom do not seem to be WCTL members).

Going forward, the reporting that began last week provides data that will allow stakeholders to see improvements from these and other measures, and we will continually evaluate the appropriate numbers of coal sets in light of our system's fluidity and the needs of our customers.

- **Coal Stockpile Escalation Process:** While we are seeing network improvements from all of the resource and operational steps listed above, we know our coal customers continue to experience low stock piles. We note, however, that rail service is not the only contributing factor to stockpile levels and that our customers have a role to play here. Customer decisions to dispatch a coal fired plant at a particular level are ultimately economic decisions, and the market for coal generation and transportation has changed dramatically in the last eighteen months. Heading into 2013, demand for coal went down significantly as a result of low natural gas prices; customer conversations at the time revolved around providing relief from prior demand declarations. When gas prices rose precipitously during 2013, PRB coal burn increased significantly as coal generation became a more economically attractive option on the dispatch curve, and the heightened demand for generation only increased as a result of the extreme temperatures during the 2013/2104 winter. Stockpiles started to dwindle and the conversation with our customers transitioned, with customers seeking coal delivery volumes in excess of the annual demand declarations they provided for 2014; in some cases, customers have received deliveries at the levels identified in their annual declarations, but are experiencing critically reduced stockpiles because of increased burn demand. Some of our customers have worked with us through our current service issues by taking proactive measures to preserve stockpile by curtailing PRB burn in favor of other generation modes, while some utility customers continue to burn PRB coal at maximum levels creating severe stockpile situations.

As we have previously advised the Board, BNSF has in place an ongoing customer review process that works to balance multiple factors, such as customer demand, stockpile status, commercial obligations, and operating parameters, and includes an escalation process for critical customers, defined as at or below a 10-day stockpile. We include a discussion of the output of this process, of critical customers and responsive measures in our weekly call with Board staff.

Conclusion

In summary, BNSF is undertaking significant efforts in the short-term and long-term to improve velocity for our coal customers and all our customers. We believe that we are taking all practical and reasonable steps to improve coal velocity and service to our customers, in light of the need to maintain appropriate levels of service to all of our other commodity groups and

customers. And these measures are working. In the current month of October we will deliver approximately 24 million tons of coal, which is our highest total since August of 2013.

In light of our extensive efforts and service recovery performance, we don't believe there is any gap in understanding, in communication, or in Board activity that a service order along the lines that WCTL has proposed proceeding would fill.² To the contrary, WCTL's proposed order on behalf of its trade association members will be counterproductive by incenting other trade association groups to petition the Board for similar measures, further stressing our network and interfering with the efficient allocation of resources. At the very least, Board action as proposed by the WCTL, focused solely on coal service, has the potential to skew service recovery towards coal shippers who are members of WCTL at the expense of shippers who are not.³ And as we will further discuss in our formal response, if the Board is inclined to take additional regulatory steps in response to the WCTL petition, BNSF asks that it be permitted to submit additional regulatory proposals that it believes would address systemic service challenges from the current set ownership, interchange and service perspectives, that would have the potential to have far greater impact on coal service than those proposed by WCTL.

We look forward to continuing to work with you on this important matter. Please do not hesitate to contact me if BNSF can provide any further information.

Sincerely,

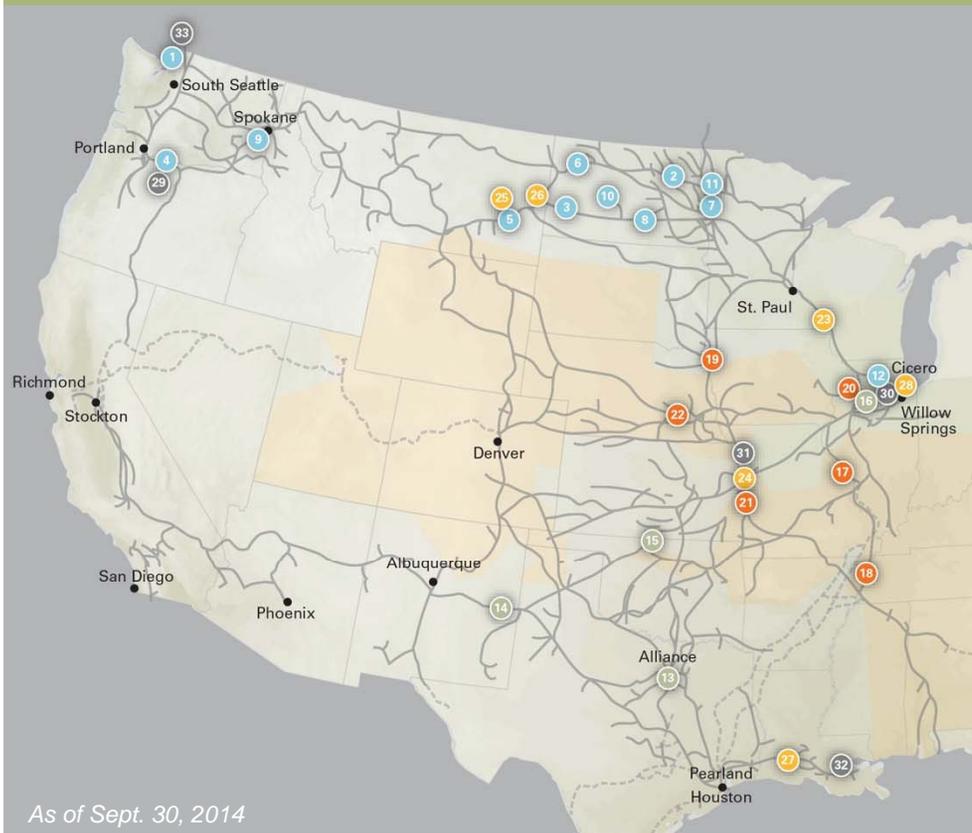
A handwritten signature in black ink, appearing to read "Roger Nober", with a long horizontal flourish extending to the right.

Roger Nober, Executive Vice President
Law & Corporate Affairs

² Because we believe that our plans and the Board's current oversight activities remove any justification for the measures outlined in WCTL's proposal, we have not addressed here the arguments that WCTL makes about the Board's authority to adopt the extraordinary measures in its petition. BNSF has voluntarily complied with prior Board requests to report on the measures that we have identified and undertaken to improve service on our network. While WCTL points to Board authority to gather data, its proposal goes well beyond the cited statutory provisions and contemplates that the Board would initiate a formal proceeding to determine what measures BNSF might be ordered to undertake and then fine BNSF for any failure to meet all aspects of the order. It is disingenuous for WCTL to characterize its requests as the Board simply exercising statutory authority to obtain information. WCTL also completely ignores the fact that the vast majority of BNSF's coal traffic moves under contract and has failed to address the jurisdictional issues their proposal raises.

³ In particular, the Western Coal Traffic League is a trade association comprised of several major utilities, but by no means all of BNSF's utility customers. Some of these customers receive coal in common carrier service, but most under transportation contracts. We will address the legal issues involved in seeking broad policy remedies across the spectrum more fully in our reply to the WCTL's petition, but at a minimum, even with respect to the WCTL, the Board does not have before it those actual shippers, nor information about their specific situations and needs. This would make both evaluation, let alone enactment of these purported remedies, procedurally defective, as well as raising legal and jurisdictional issues. Broadening the proceeding to invite comments of interested parties does not remedy those issues. If the Board is inclined to take additional regulatory steps in response to the WCTL petition, BNSF asks that it be permitted to submit additional regulatory proposals that it believes would address systemic service challenges from the current set ownership, interchange and service perspectives, that would have the potential to have far greater impact on coal service than those proposed by WCTL.

BNSF's 2014 Capacity Expansion Plans



Terminal & Line Capacity Expansion Projects

Major line and terminal projects by region, route and subdivision (sub)

North Region

- 1 **Bellingham**: begin double track project and complete power switch project
- 2 **Devils Lake**: three siding projects and signal work
- 3 **Dickinson**: four siding projects
- 4 **Fallbridge**: two siding projects
- 5 **Forsyth**: six siding projects
- 6 **Glasgow**: six segments of double track (three in service, begin three others)
- 7 **Hillsboro**: four siding projects
- 8 **Jamestown**: one siding project plus begin CTC installation
- 9 **Lakeside**: five double track projects and one siding project
- 10 **Zap**: one siding project
- 11 **Noyes**: interchange tracks and one siding project
- 12 **Aurora**: two siding projects

South Region

- 13 **Fort Worth**: completion of multiyear Tower 55 project
- 14 **Clovis**: begin 10 mile double track project Vaughn - Camero
- 15 **Panhandle**: begin 20 mile double track project Loder - Avard
- 16 **Mendota**: interchange tracks at Zearing

Central Region

- 17 **Hannibal**: one siding project
- 18 **River**: one double track project
- 19 **Sioux City**: one bypass track and one siding project
- 20 **Barstow**: one siding project
- 21 **Fort Scott**: begin double track project Bonita - Hillsdale
- 22 **Ravenna**: begin 12 mile double track project

Terminals

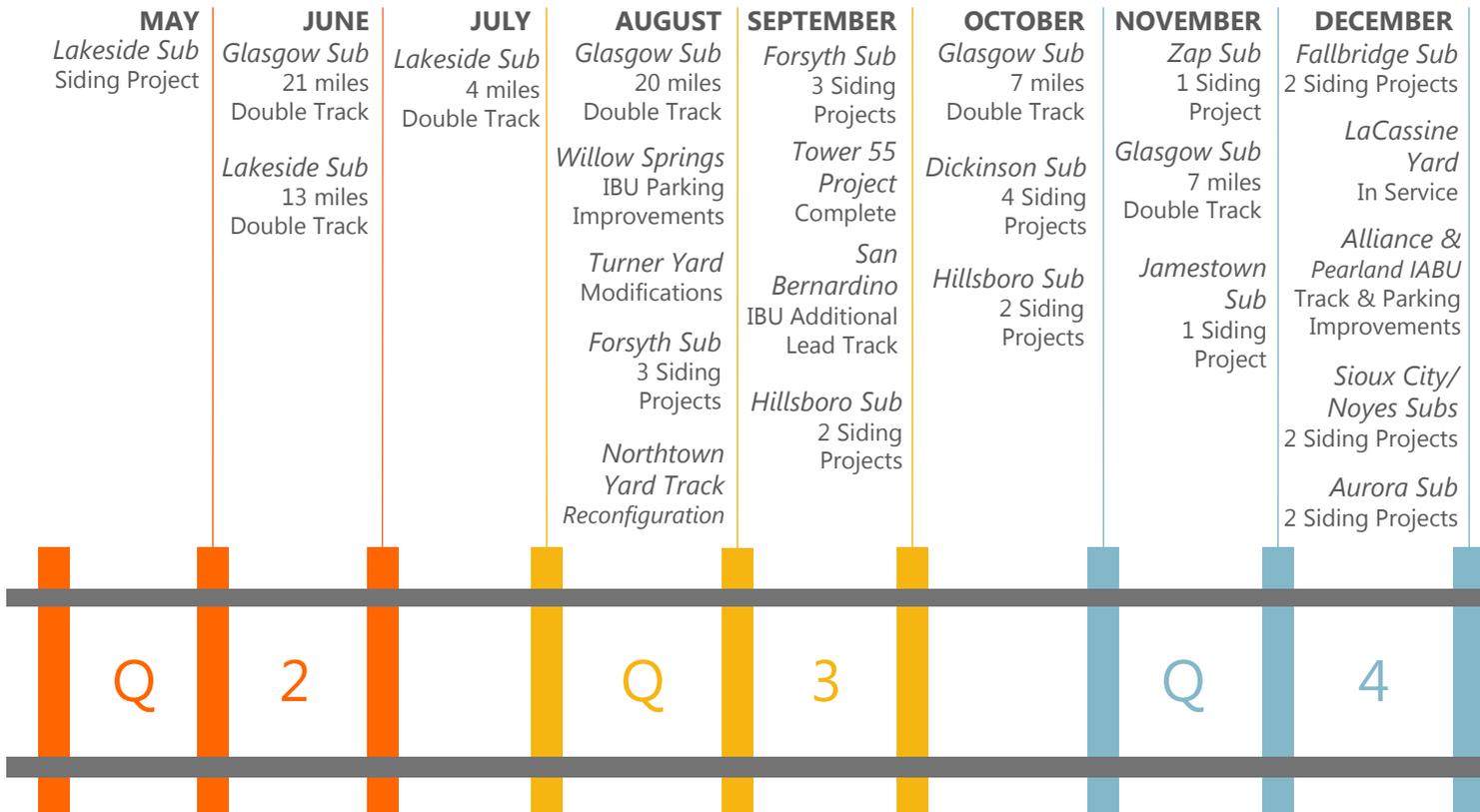
- 23 **Aurora**: continue double tracking and signal improvements through LaCrosse terminal
- 24 **Emporia**: reconfigure portion of Argentine yard at Kansas City to accommodate more automotive car switching and increase overall terminal throughput
- 25 **Forsyth**: extend track lengths at Forsyth terminal
- 26 **Forsyth**: extend track lengths at Glendive terminal
- 27 **Lafayette**: complete Lacassine, LA yard project to serve Lake Charles, LA area
- 28 **Chicago**: extend two tracks at the Chicago Western Avenue yard

Bridges

- Construction work is underway on some of the largest bridges on BNSF, including:
- 29 **Fallbridge**: Bridge 24.8 over Washougal River in Camas, Wash.; replacement of river bridge will take more than two years to complete due to the permitting and right-of-way constraints
 - 30 **Mendota**: Bridges 106.58 and 110.26 near Princeton, Ill.; replacement of both double-track bridges is being combined as one project
 - 31 **St. Joe**: Bridge 160.76 in Tecumseh, Neb.; replace bridge across North Fork of the Nemaha River
 - 32 **Lafayette**: Bridge 32.06 in Des Allemands, La.; major work to the moveable bridge that crosses Bayou Des Allemands
 - 33 **New Westminster**: Bridge 129.3 near Colebrook, B.C.; continue work from 2013 on bridge over Serpentine River



2014 Major Expansion Project Timeline



- **Expansion projects will carry through until year end.**
- **More than 70 miles of double track will be completed.**

Expanding Infrastructure

