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September 15, 2014

The Honorable Daniel R. Elliott III
Chairman
United States Surface Transportation Board
395 E Street, SW
Washington DC 20423

Dear Chairman Elliott:

I write in response to your letter of August 19, 2014, where you ask BNSF Railway Company to provide an assessment of its ability to meet traditional "Fall Peak" service demands. In addition, you asked that BNSF in this reply to respond to additional issues that were raised at the September 4, 2014, field hearing held in Fargo, North Dakota.

In this response, I will provide you with answers to your specific questions regarding BNSF Railway's expectations of traffic volumes through the fall and winter including anticipated points of congestion and then describe the actions BNSF is undertaking to accommodate these volumes while maintaining the fluidity of the network.

Volume Outlook

As we discussed at the recent hearing, BNSF is currently moving large volumes across our network particularly in our northern operating region, in coal, agriculture and crude, and we expect these large volumes to continue for the rest of the year and into 2015. We also expect that the customary seasonal demand patterns seen in previous years to also continue. Through August, BNSF units are up 1.8 percent compared to the same period a year earlier.

Turning to the individual business units, Consumer Products volumes, which include both intermodal and automotive traffic, have been mostly flat through August and that trend is expected to continue for the balance of the year. Our international intermodal business unit saw modest growth in the first part of the year reflecting the ongoing economic recovery and increased imports at U.S. West Coast ports. Expectations are for international to see a muted peak season resulting from advanced shipping and freight diversions due to concerns of potential labor disruptions at U.S. West Coast ports. Domestic intermodal volumes were flat in the first part of the year as increases in our truckload segment have offset declines in our less-than-truckload segment. This trend will continue for the remainder of 2014. Increases in truckload volumes are driven by the ongoing economic recovery and over-the-road conversions resulting from capacity challenges in the trucking industry. The decline in less-than-truckload volume is the result of strained capacity causing an inability to meet required schedules on our northern corridor. We are expecting to see volume increases in the fourth quarter associated with a normal domestic peak season.

In our Automotive business, volumes have increased this year versus 2013 due to strength in Auto sales driven by an improved economy, attractive incentives, and increased demand for trucks and SUVs. As the year progresses, we expect the volume to continue at its current pace as demand remains strong.

Industrial Products volumes have grown about 5 percent this year through August compared to the same period last year, primarily driven by the strength of energy-related commodities, most notably crude oil and frac sand. Volume growth is expected to trend upward in the remaining months of the year led by the aforementioned commodities. BNSF currently serves a number of crude unit train facilities servicing several western shale plays– 31 origin facilities and 34 destination facilities – with several more origin/destination facilities under development. We currently have about 180 active crude unit train sets in service and these are expected to exceed 200 by the end of the year.

Coal units are up 1.4 percent through August compared to the same period last year. This is a continuation of higher volumes that we began to experience in June of 2013 as demand for Powder River Basin (PRB) coal increased with a rise in natural gas prices and utilities returned to greater coal-fired generation as the best value. The increase in PRB burn took place against the backdrop of declining inventories that was already underway prior to natural gas price increases. During the first half of 2014, PRB burn is up almost 25 million tons, or 13 percent, over the same period in 2012 and up 6 million tons, or 3 percent, over 2013. Understanding that we have under-delivered against this coal demand through the winter and spring, we have continued to grow the number of coal sets across our coal corridors and are operating nearly 500 sets.

We expect this higher demand to continue for the rest of this year and into 2015 as we are not meeting current coal demand due to our service challenges. We are focused on meeting our contract obligations and working with those customers who want more volume than their contact declaration, but there are also customers for whom we are not meeting our customer declarations. We will move more coal the latter part of this year and next year as capacity is added, which I will discuss in more detail below. However, we will continue rebuilding stockpiles in 2015, with some completing in 2016.

Grain and Agricultural Products volumes overall are trending slightly higher this year over last year, but we are moving record and near-record volumes out of the states in our northern operating region of North Dakota, South Dakota, Montana and Minnesota. In addition to these existing volumes, we are anticipating a large, potentially record, corn and soybean harvest as has been widely discussed in EP 724 (Sub-No. 2) *United States Rail Issues-Grain*. Forecasters are predicting a 4 percent increase over last year's record U.S. corn and soybean harvest, leading to higher demand for the rest of this year and through most of 2015. As Steve Bobb, Executive Vice President and Chief Marketing Officer, testified at the September 4, hearing, BNSF has sold record grain capacity for fall 2014 and winter 2015 and will run a record number of shuttles that combined with expected fleet velocity should give us the capability to move record volumes for this year's harvest.

We are more capable of meeting demand than we were last year due to the additional grain capacity offered, but also through our management of our shuttle sets. As we moved into the fall grain harvest in 2013, the increase in demand for shuttle capacity was sudden and significant. This created two issues, the first being an unplanned draining of critical resources such as crew, track capacity and locomotives as other commodity volumes were spiking.

Second, the sudden upsurge created an immediate imbalance between single-car supply and the need to place those cars into shuttle service for the immediate demand. Our approach in 2014 is a much smoother ramp-up from pre-harvest levels to the peak of highest demand in an effort to avoid that sudden shock to the system. As you know from our reporting, we have also added track capacity, locomotives and employees to assist in managing a peak grain demand. The added capacity should result in a 15 to 20 percent additional volume increase for grain transportation on BNSF.

Despite these efforts, many factors impact the timing and quantities of grain movement such as price, weather, and export demand. It is not uncommon to see rapid swings between high and low demand during harvest and the following months through winter. If demand exists for a large crop to move all at once or to distant markets, even if we maintain higher velocity, it will require large shuttle utilization and the number of past dues will temporarily increase during that time.

Your letter also requested information on ethanol and propane. BNSF's ethanol units are up year-over-year, but we are still not meeting demand. While some ethanol customers will experience improved service as a result of our 2014 capacity expansion, more expansion in 2015 is necessary for further improvements. Regarding propane, last year's shortages in the upper Midwest were driven by severe weather and decreased supply due to a pipeline being taken out of service in preparation for a flow reversal, leaving shippers to find capacity in a scarce spot market where equipment and loading capacity were already obligated for the winter season. Propane demand for the upcoming winter season will also be driven by weather, however, overall market capacity and storage has been increased and the capacity lost in the pipeline reversal will need to be replaced by several railroads and other pipelines. We continue to advise customers to fill storage early and be cognizant of transit times and equipment availability as they plan. Propane loadings on BNSF are over double what they were last year at this time which we believe is a signal that customers are indeed planning ahead after last year's tight capacity market.

As we enter the fall, we continue to implement this year's capital plan and hiring. As you know from our biweekly filings, we are on track and in some cases have exceeded our initial 2014 plan. Locomotive acquisition is on track and we will hire above volume and attrition and well in excess of our original plan of 5,000 people. We will have sufficient locomotives and crews in place to accommodate expected volumes for the remainder of this year and into next year.

<u>BNSF Service Recovery and Expansion Outlook</u>

In terms of what our customers can expect for service improvement going forward, we believe that they will see continued improvements in the later months of 2014 as we complete maintenance and significant new capacity enters service. Track maintenance season is still ongoing with over 55 work gangs deployed across the network, each of which necessitate a working track window or route outage to support required renewal of rail, ties and ballast. To support these daily outages, we have elongated the trip plans for many of our trains as we route trains to alternate routes away from the maintenance. This has caused an increase in the number of cars that some customers operate in order to compensate for the longer trip plans and delays. We recognize that some customers are feeling service impacts from these maintenance activities but completing this program is essential. Once this maintenance is completed, alternate routing will stop and slow orders will be reduced which will positively impact velocity.

As we regularly report, our unprecedented track expansion program is well underway, and you have seen how our progress against our plan has tracked through the year. Many of the projects with the largest impacts on velocity have yet to be delivered, but will be placed in service late this year and some of the initial grading will be complete for projects planned for delivery in 2015. Specific examples of projects yet to be completed that will positively impact velocity include:

- Completion of the remaining 14 miles of double track on the Glasgow subdivision in North Dakota to reach 54.6 miles for the year;
- A new siding and three siding extensions on the Dickinson subdivision in North Dakota and Montana;
- Two new sidings, four siding extensions and Glendive Yard expansion on the Forsyth subdivision in Montana;
- Upgrades to three siding on the Devils Lake subdivision in North Dakota;
- Two new sidings and two siding extensions on the Hillsboro subdivision in North Dakota;
- A new siding and siding extension on the Fallbridge subdivision in Washington.

As for our service outlook, as we traditionally do, we will review by corridor. Starting with the Southern Transcon, service will continue to improve as a majority of the significant track work projects wind down. We have targeted additional capacity expansion projects for delivery next year that will address the remaining single-track segment bottlenecks.

The Central region has continued to be challenged as a result of weather impacts in the north that have necessitated volumes being rerouted on to the coal routes and the continued high demand for coal. As the rerouted traffic moves back to the north, we will see more gradual improvement as the number of coal sets in operation continues to be very high. As velocity improves, the number of coal sets will decline as we are more able to move volume with fewer sets. This will also improve service to our customers as stockpiles are rebuilt.

The Northern region will see incremental improvement as track maintenance concludes, but should see larger improvements as track expansion projects come online. Specifically, the subdivisions from western North Dakota to the West Coast should perform much better in the latter part of the year as the key capital projects I discussed above come into service. These projects will provide added throughput which will increase velocity for grain, crude oil and coal volumes. The restoration of normal routes, and some increase in train size due to new and extended siding length, following the fall expansion projects coming on line will bring additional capacity benefits to our central corridor as well.

The eastern end of our Northern Transcon, between Minneapolis and Chicago, will continue to be congested in 2015. The St. Croix and Aurora subdivisions in Wisconsin and Illinois will receive major maintenance work this year, and continue through next year with line-capacity expansion, such as signal work, siding extensions and double track in certain areas. This work, when complete, should significantly benefit velocity.

In addition to our specific service outlook, you asked for impacts to Amtrak service and the Chicago terminal. Starting with Amtrak, for nearly all of 2014 service to Amtrak's Empire Builder has also been challenged and we have worked closely with Amtrak to minimize the variability in schedule as well as the hours late. We have also in cooperation set a temporary schedule for the Empire Builder that more appropriately sets passenger expectations on station arrival and departure times. Unfortunately on-time performance has remained inconsistent. The consistency of on-time performance is expected to improve in the fourth quarter as this year's capital maintenance program concludes and new capacity is placed into service, specifically between Fargo and Minot on the Hillsboro and Devils Lake subdivisions.

With respect to Chicago, its impact on the national rail network is a necessary part of the conversation around improving service as we saw the impacts on all carriers during last year's severe winter. Communication and coordination between carriers serving the Chicago complex through the Chicago Transportation Coordination Office (CTCO) and directly with each other on interchange moves is essential for maintaining the fluidity of the system.

To illustrate this point, a continuing issue that must be remedied is the inconsistency of train arrival that results in a bunching of flows into and out of Chicago that has to be managed by controlling flows to and from other connecting railroads at multiple junction points. BNSF has experienced multiple trains being staged waiting for interchange, while other times trains move directly to connection upon arrival. All railroads experience this and in order to manage this process, our coordinated communications and control must operate at peak capability. We have continued our commitment to staffing in this arena to ensure we minimize missing any slot of interchange capacity.

We are also actively working with several of our interchange partner carriers to operationally develop alternate interchange locations in an attempt to reduce the overall load on the Chicago junctions. As you are aware, Chicago is a pivotal hub for the handling of all intermodal traffic. Weekly, with participation from the eastern Class I railroads, we review and refine the blocking and make-up of our intermodal trains in order to create greater proportions of traffic that requires no handling in Chicago. The goal of this effort is to create an operating plan that consists only of a crew change to achieve greater velocity gains. We are also constructing additional interchange tracks to further facilitate the fluidity of interchange with the eastern carriers.

In conclusion, the capacity increases coming later this year will bring improvement, but we know we have much work to do to ensure that capacity stays ahead of volume. The reality is that as a common carrier, we have an imperfect gauge for knowing when and where growth will come, but it is our responsibility to take on this traffic as markets demand for it to be moved. BNSF is currently moving large volumes of many different commodities and our job is to continue building out the railroad to handle the growth as it comes. We have a track record of doing so having invested over $46 billion in capital since 2000. We are not ahead of growth yet and we will continue next year with another significant capital plan. As noted above, we will continue investing on the segments of our network where volume growth requires expansion. We are going to invest whatever it takes to handle all of our customers' current and future growth.

Sincerely,

Carl R. Ice
President & CEO

Cc: Commissioner Ann D. Begeman
Vice Chairman Debra Miller