235871

ENTERED
Office of Proceedings
April 10, 2014
Part of
Public Record

MINNESOTA GRAIN & FEED ASSOCIATION

April 10, 2014

Ms. Cynthia Brown
Chief, Section of Administration, Officer of Proceedings
Surface Transportation Board
Attn: Docket No. EP 724
395 E Street, SW
Washington, D.C. 20423-0111

Dear Ms. Brown:

On behalf of the Minnesota Grain and Feed Association grain elevator and feed mill members, we appreciate the opportunity to address the impacts of the recent service problems being experienced by many of our country elevator members. In Minnesota, there are approximately 140 grain elevators served by various railroads, with approximately 50 of those locations capable of loading unit trains. The major rail carriers primarily serving Minnesota are Union Pacific, Burlington Northern Santa Fe (BNSF) and Canadian Pacific (CP). The major problems being encountered by our members are related to service delays by the BNSF and CP. Here are a few examples of the delays being experienced by many of our BNSF and CP rail users.

At this first grain elevator unit train loading facility on the CP, placements are 60 days late. They would normally expect to ship 800 cars per month but are only getting 300 per month, receiving only 50 cars so far this April. When they do load cars, the train will dwell on site for as long as 10 days. They wonder if the recent Canadian Legislature's action on Canadian rail capacity has diverted the CP's capacity and attention to that market, leaving U.S. customers with even fewer cars, power and resources. The reduction in capacity, the penalties, contract discounts and interest have cost this company hundreds of thousands of dollars.

This same firm has access to the BNSF as well, which is very unusual in a state dominated by "captive" rail shippers. Placements are about ten days late, which is not good but certainly better than CP. However, the current exceptionally high cost of rail freight makes it impractical to order freight at this time, which only adds to the problem. Aftermarket cars are going for $2,500 to $4,000 each so they have been loading only those originally contracted. They would prefer to move grain from their CP location to their BNSF location but again, the high cost of freight even makes that plan unattainable. Obviously, if they can't ship grain, they can't receive much grain, which will end up backing up to farm stored grain. As a result of all this is a reduction in grain handling and grain drying revenue.

At another grain elevator located on the CP, which handles about 13 million bushels of grain per year and generally loads 3-5 unit trains per month, they are currently waiting on a January 20th order for a shuttle train (12 -13 weeks late). Because of the huge uncertainly and enormous discounts for being

3470 WASHINGTON DRIVE, SUITE 200 • EAGAN, MN 55122 • PHONE 651-454-8212 • FAX 651-454-8312
E-mail: info@mgfa.org • Website: www.mgfa.org

even days late, which were ranging between 3 -10 cents a bushel per day from the export house, they could not enter into a binding contract with an export house to move product and capture any margin. They gave CP a two month notice on their needs for December order dates, allowing the CP to be almost 3 months out on car placements, so as to avoid contract discounts. The cars ended up being 12 days late, which ended up costing the elevator close to a quarter million dollars in late charges on a 100 car corn train. In contrast, the CP has no penalty for late car placements. This same firm also missed out on an opportunity to move soybeans into the Export channel because of the very limited car placements at a time when the export was in its peak period. This was a large loss of basis (40-70 cents per bushel) accrued to the elevator for not being able to load 2-3 shuttles of soybeans at this time. Cost of increased financing large inventories for a drawn-out period of time has also been a factor due to rail non-performance. This $15 million dollar 110 car loading facility, which can load a train in less than 12 hours, has had loaded trains sitting loaded on their side track for up to 14 days before pickup. This location will generally load 3-4 unit trains/month but their service level is a 1/3 or less than what the CP marketing team gave them at the beginning of the marketing year.

Another 110 car shuttle loader on the BNSF, which handles corn, soybeans, and wheat, has encountered considerable problems with the performance of the BNSF. They have run into costly delays in the delivery of COT cars. They have also been unable to sell to-arrive wheat as they are not sure when they are getting the cars and can't sell for a specific window. Today, their COT cars are running 20 to 30 days late. The secondary market on shuttle cars has exploded due to the poor performance of the BNSF and elevators having sold grain for a specific window and the BNSF not delivering have to go to the secondary market to get return shuttles and help mitigate their penalties for late shipment. As was mentioned earlier, we have seen this market run as high as $4,000.00 per car or $1.00 per bushel for corn. At this additional cost, the total cost to get one bushel of corn to the PNW is $2.50 per bushel or $10,000.00 per car. Penalties that have been assessed for late shipments have run up to over $1.00 per bushel. Typically the secondary market cars have run at about $500.00 or less this time of year.

I was told that the BNSF has begun to offer shuttles for April/May. Usually the companies that take on these shuttles have to pay nothing to get one. However, I was further told that the BNSF auctioned off 21 shuttles and reaped over $10 million, which has the appearance of rewarding the BNSF for their poor performance??

One of our biggest concerns looking forward is the likelihood of going into this fall's harvest with elevators close to full of grain and no freight to ship it. This will create some major problems, which will back onto farm storage and harvest delays.

There is a perception that the railroads are providing preferential treatment to the movement of oil out of the North Dakota Bakken Range. This perception is reinforced when an elevator, that has been waiting months for delivery of grain cars, sees an oil train-a-day, go rolling past his facility. The BNSF has, for example, taken the unprecedented move to purchase 5000 new double hull and safer oil tankers to address the lingering safety problem associated with moving the volatile Bakken crude oil. This move only reinforces this perception of a long term commitment to oil and a persistence of unprecedented congestion on the rail network. Up until now, all oil tankers were privately owned and not railroad owned. We have witnessed first-hand, the reported 1363% increase car loadings of oil since 2010, a trend that will continue to adversely affect efficiencies on the rail network.

The overall issue with rail service seems to be a problem of unprecedented congestion on the system and less a shortage of power, crews and rolling stock. It also appears that this congestion problem and focus on the movement of oil will be with us for some time to come! Velocity and Cycle time of cars needs to obviously improve, which means that the railroads will need to put a lot of money into infrastructure improvements over the next few years. Communication between railroads and shippers has also been a problem and needs to be improved so shippers can make informed decisions on grain position, staffing for loading trains and for booking freight into the future. More insight and sharing of service metrics, i.e., weekly car loadings, average dwell time, real time data on cycle time, would also be useful in our planning activity. A fertilizer shortage is now on the horizon as well as a reoccurring problem with the movement and placement of propane for this falls' grain drying needs and home heating.

We want to encourage the Surface Transportation Board to hold additional informal "field" meetings with shippers into this next growing season, to ascertain if efficiencies have improved and if regulatory action should be considered by the STB. The final price tag on losses for rail users will easily be in the millions of dollars, with the railroads shouldering none of that loss in the apparent shirking of their common carrier obligation.

We thank you for holding the field hearing in Fargo on March 26 and for holding the formal hearing before the STB on this issue on April 10. Time will tell if the promises made by the BNSF and CP, in addressing this unprecedented and unacceptable corporate behavior, will actually lead to reliable, dependable and affordable service for grain shippers in the upper Midwest.

Sincerely,

Robert Zelenka

Robert Zelenka
Executive Director