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BEFORE THE

SURFACE TRANSPORTATION BOARD

DOCKET NO. EP 724

UNITED STATES RAIL SERVICE ISSUES

DOCKET NO. EP 724 (~~SUB-NO. 1~~)

UNITED STATES RAIL SERVICE ISSUES - GRAIN

STATEMENT
OF
TERRY C. WHITESIDE

My name is Terry Whiteside. I serve as the Chairman of the Alliance For Rail Competition (ARC) and represent and appear on behalf of ARC and the Wheat and Barley Commissions throughout the United States in Transportation issues including the Montana Wheat and Barley Committee, Colorado Wheat Administrative Committee, Oklahoma Wheat Commission, South Dakota Wheat Commission, Washington Grain Commission, Oregon Wheat Commission, Idaho Barley Commission, Idaho Wheat Commission, Wyoming Wheat Marketing Wheat Commission, Nebraska Wheat Board Texas Wheat Producers Board, and Montana Farmers Union. Additionally today, I am here to also talk about the Pea and Lentil business, turkey farmer's issues, and general agricultural transportation.

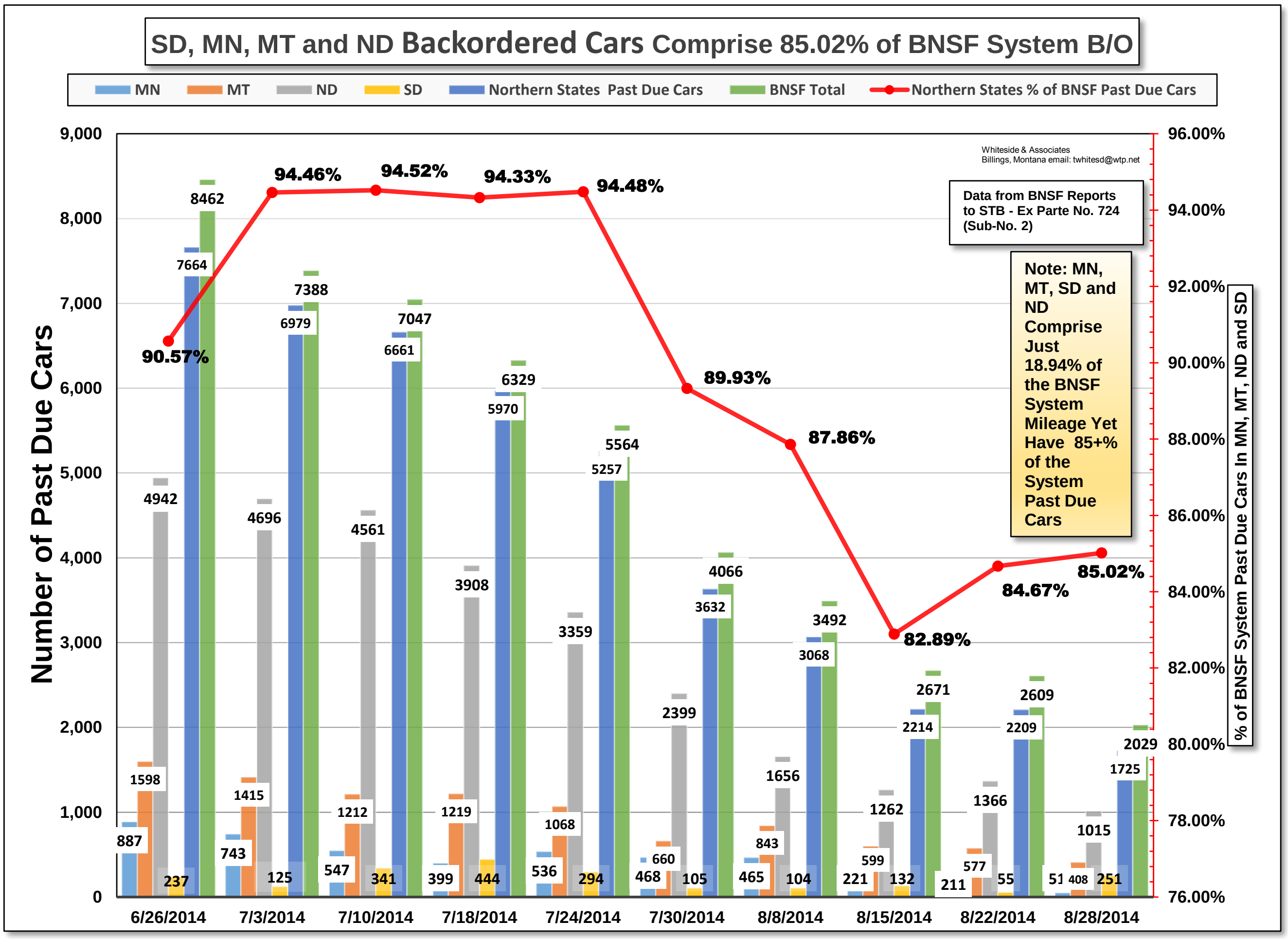
I wish to thank the members of the Surface Transportation Board (STB) for holding a public field hearing here in Fargo, ND and allowing agricultural interests to provide information and report on service problems in the United States rail network. Additionally to allow the rail industry folks to hear from rail customers on their problems and the railroads on their efforts to address service problems, and to discuss additional options to improve rail service.

Wheat, Barley, pulse growers and growers of grain including corn and soybeans have, for over a year, been adversely impacted recent railroad service problems, particularly on BNSF and CP. The service irregularties have culminated in one of the worst service meltdowns in modern history for the farm producers. What concerns the farm producers the most is the lack of straight answers from the railroads. Yes, they have been reaching out and making speeches, but the facts keep changing.

When the agricultural interests participated in the STB Annual Grain Car Council with this Board about a year ago at the TEGMA meeting – the picture according to them was characterized as a few issues but they, the railroads, would be through them shortly. In fact, last fall, the railroads were indicating to the farm producers that they would see service improvements by December, 2013. Then in January, 2014 it was March 2014, then in April, 2014 it was going to be June 2014, then the end of harvest of the 2014 crop, then the end of 2014 and last week I heard from Matt Rose in a speech to coal shippers to look at the end of 2015 or early 2016 before service improvements occur. We need a Department of Straight answers at the railroads. I commend this Board for requiring the filing of important data indicating status of the past dues and plans to alleviate the problems. The concern I hear from the growers of grain is whether the ability is there to provide timely and efficient service during the upcoming fall harvest and heavy shipping period for wheat, barley, corn and soybean during this next winter.

Let's review of where we are at this time. Let's look first at the Past Due charts produced from BNSF data ordered by the STB.

Chart I – BNSF Backordered Cars – August 28, 2014



The good news – the BNSF Backordered car numbers continue to fall. But don't let one's attention look at just backordered car numbers. There is a massive concentration in the Northern states (MN, MT, ND, and SD) of backordered cars by the BNSF. In the week ending 08-28-2014 (last week), the BNSF data (required to be filed by the STB (June 20, 2014 order in Ex Parte No. 724)) showed of the total backorders on the system (2,029 cars), fully 1,725 cars were in MN, MT, ND and SD which comprise just under 19% of the BNSF system mileage). Thus 304 backordered cars on the BNSF system are spread over the rest of the BNSF system (81.06%) – and the northern plains have over 85% of the BNSF backorders – and the percentage numbers are getting worse for the last three weeks. These states where the backorders are concentrated are the most captive on the BNSF system.

Second Major Concern – The BNSF Average Speed for the System and Grain are still falling – and they are at their lowest levels since April 2013.

Chart II – BNSF Systemwide Average Train Speed – System and Grain

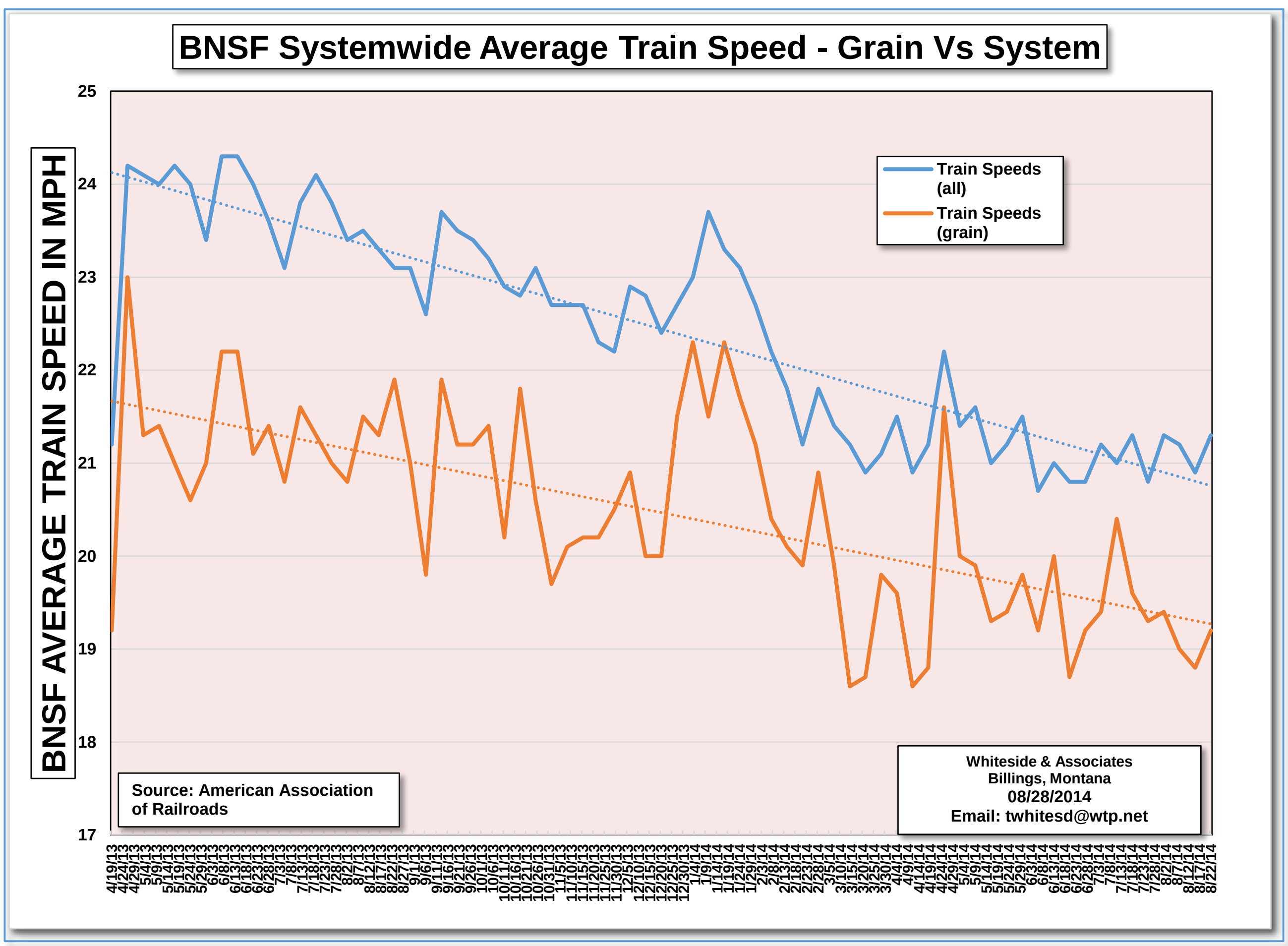


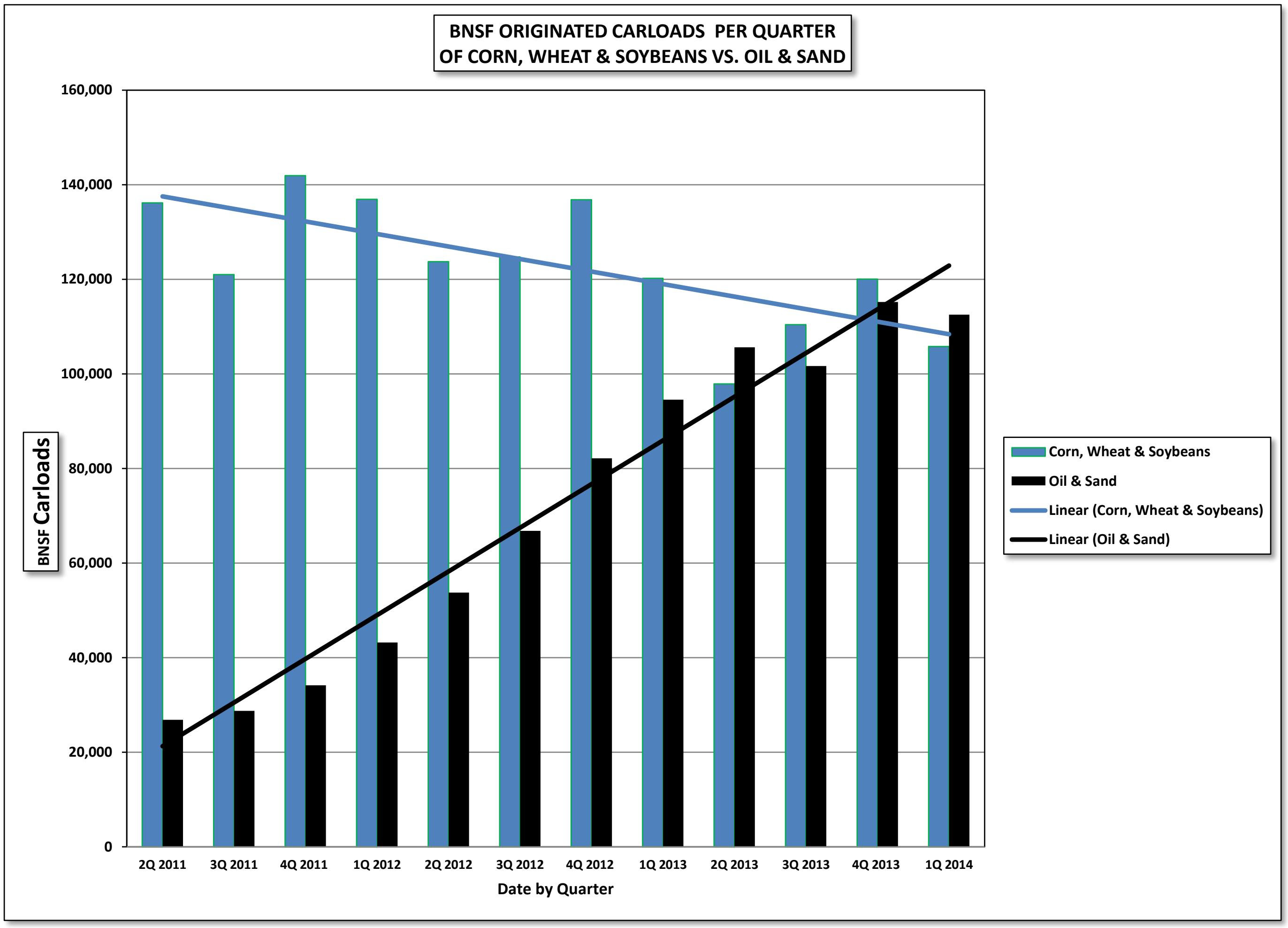
Table I – Summary of U. S. Class I Railroad Wheat Movement - 2013

Summary of 2013 U.S. Class I Railroad Wheat Movements (Source: STB 2013 Freight Commoditiy Statistics)						
Railroad	**Cars Carried**	**%**	**Tons Carried**	**%**	**Revenue**	**%**
BNSF	195,957	45.2%	21,006,544	46.0%	$765,298,045	54.4%
UP	98,318	22.7%	10,373,650	22.7%	$333,853,778	23.7%
CP	53,281	12.3%	5,331,042	11.7%	$83,878,306	6.0%
NS	38,488	8.9%	3,981,861	8.7%	$109,465,241	7.8%
CSX	34,095	7.9%	3,592,928	7.9%	$86,230,680	6.1%
CN	9,471	2.2%	980,358	2.1%	$19,018,155	1.4%
KCS	3,901	0.9%	402,762	0.9%	$8,378,528	0.6%
Total	**433,511**	**100.0%**	**45,669,145**	**100.0%**	**$1,406,122,732**	**100.0%**

As indicated in a recent article in the *New York Times* Ron Nixon titled Grain Piles Up, Waiting for a Ride, as Trains Move North Dakota Oil, dated August 25, 2014, railroad grain shipments have been held up and delayed primarily as a result of the significant increase in railroad shipments on Bakken oil from North Dakota and related traffic, such as sand, which have surged since 2008. As can be seen from the following graph, in three (3) short years, the number of BNSF originated corn, wheat and soybean carloads has been surpassed by originated oil and sand carloads:

Chart III

BNSF Originated Carloads per Quarter of
Corn, Wheat and Soybeans Compared to Oil and Sand

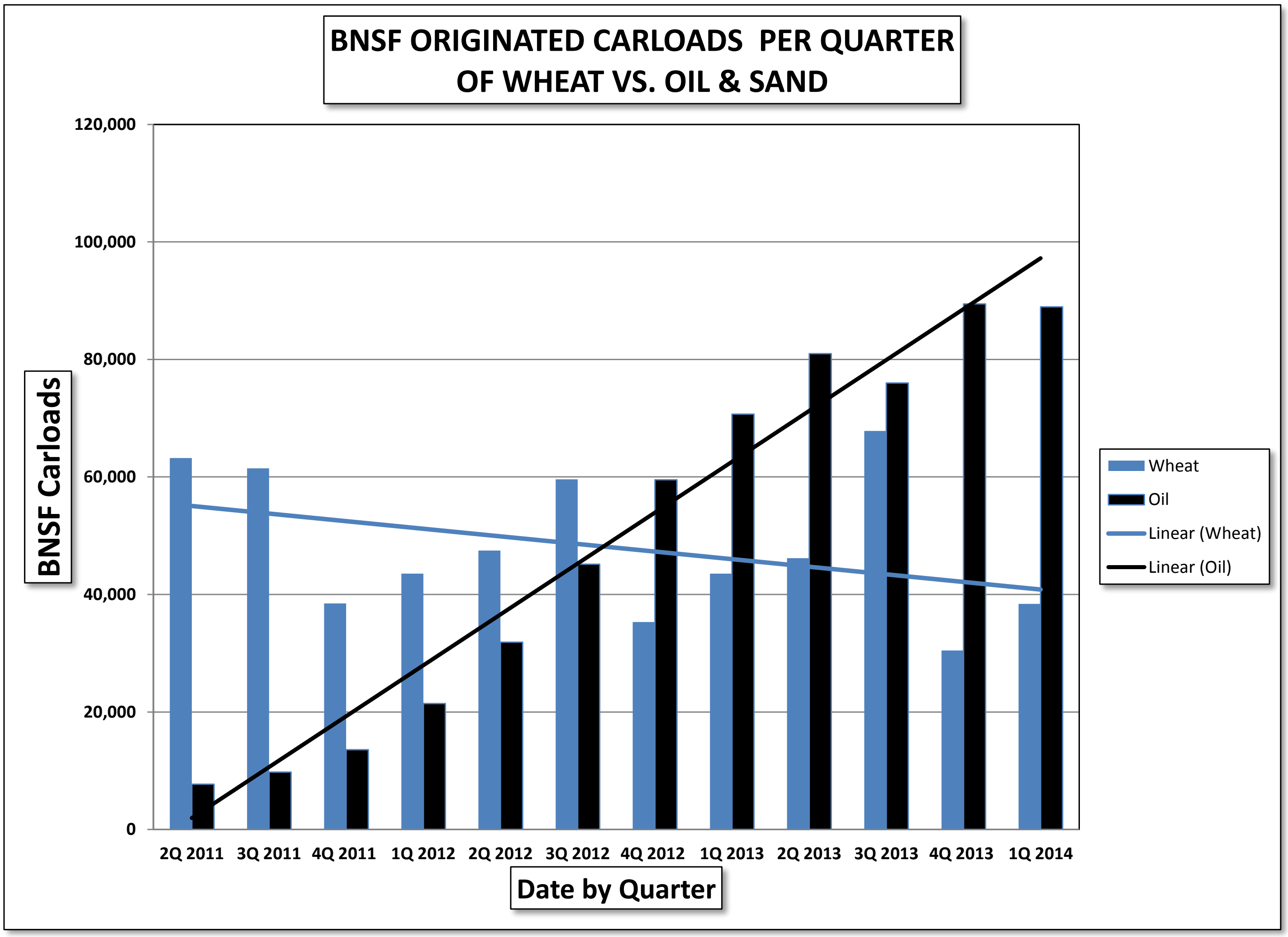


The grain growers of the northern tier states are watching as oil and sand shipments overtake the total grain movements in their producing area. This huge and rapid increase in volumes of Oil and Sand is creating the capacity problems for virtually all grains and the shortage of locomotive power in the northern states. Oil and Sand shipments have overtaken Grain shipments on BNSF and have already started to displace the grain shipments.

The BNSF wheat shipments were overtaken by oil and sand shipments in the 4th Quarter of 2012, while the corn, soybean and wheat carload shipments were overtaken in the 2nd Quarter of 2014. Last week, the BNSF indicated that the BNSF is moving more crude oil train sets than agricultural train sets.

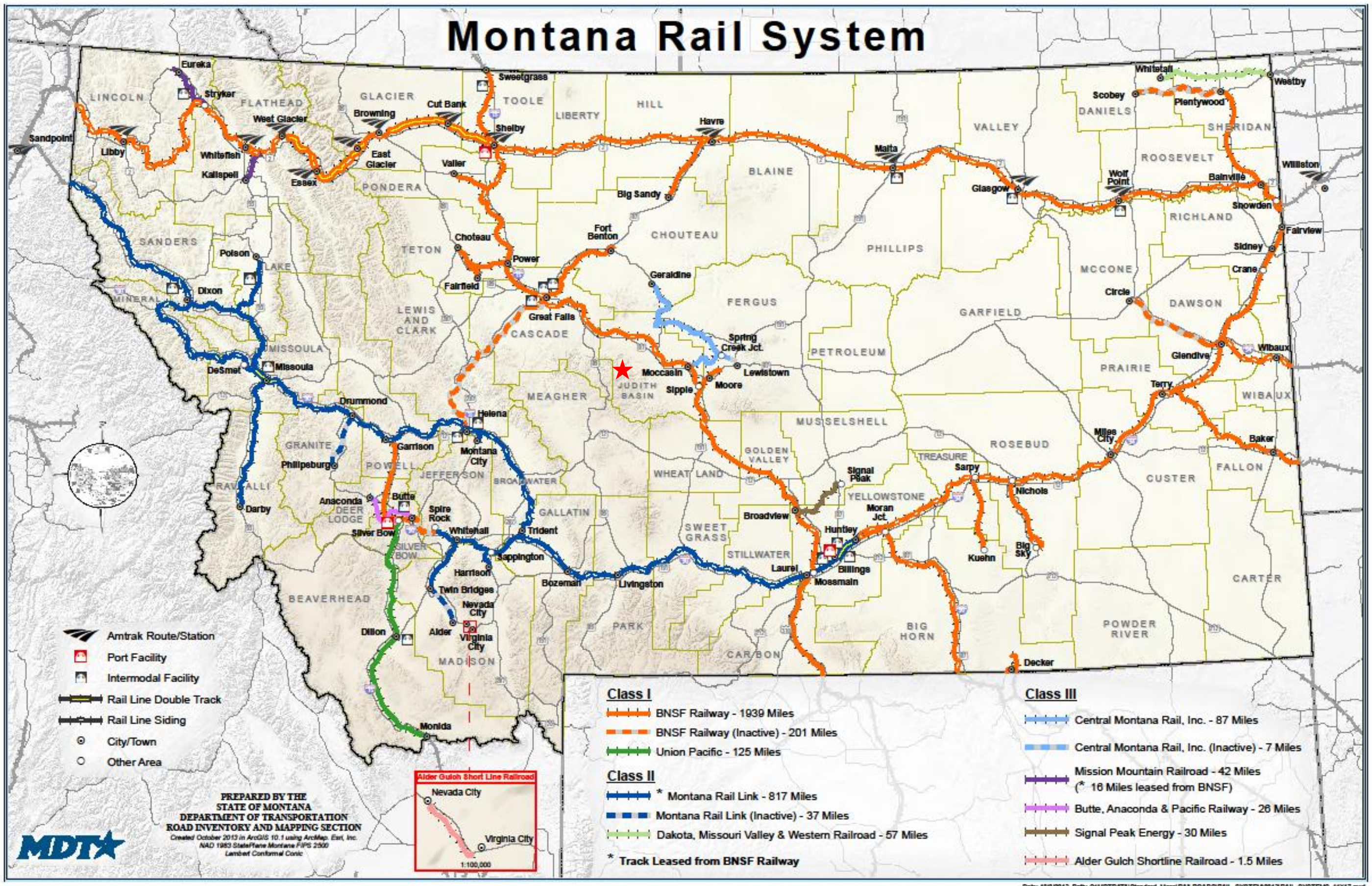
Chart IV

BNSF Originated Carloads Per Quarter of
<u>Wheat Compared to Oil and Sand</u>



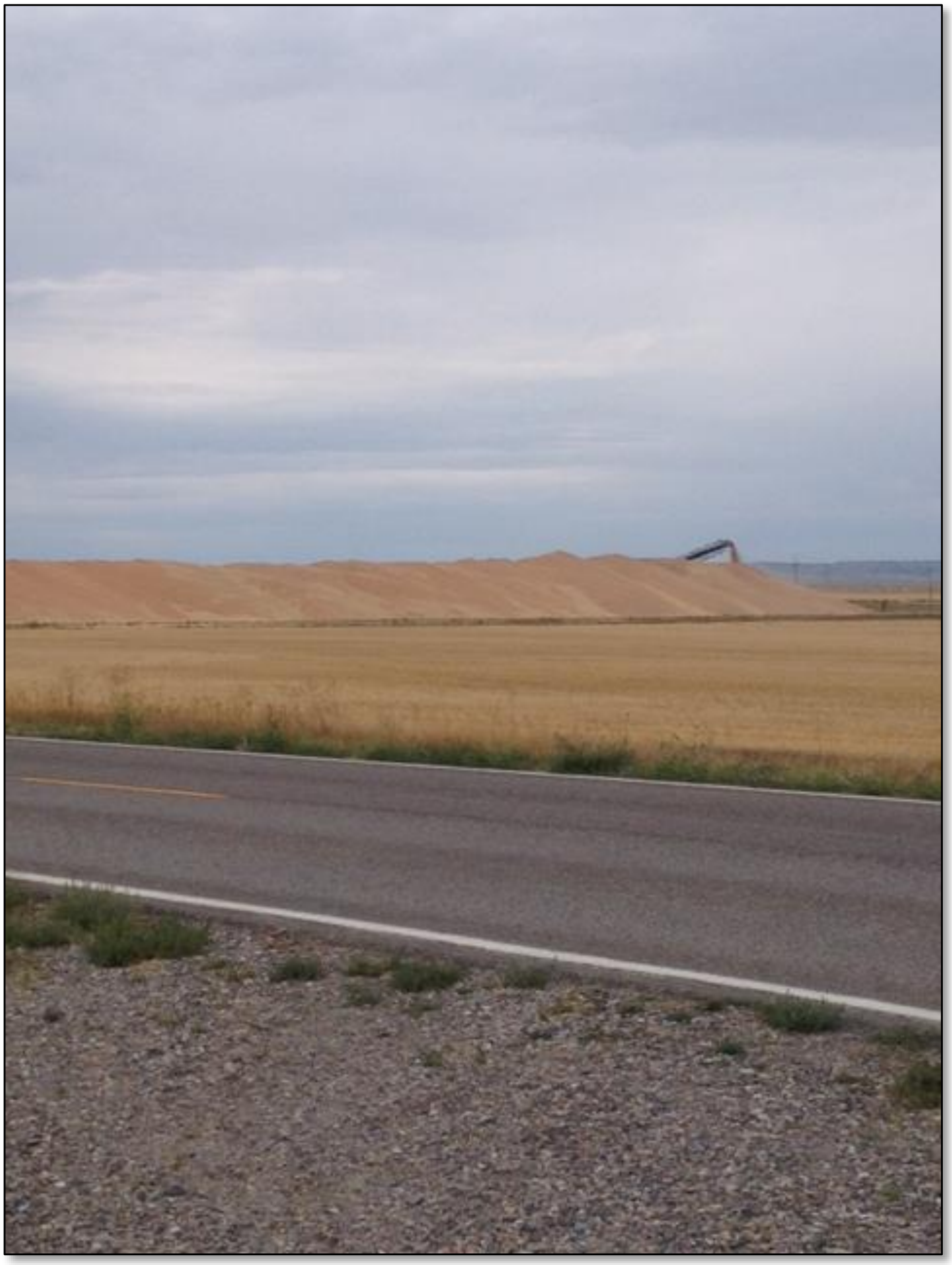
What about current harvest? A pictorial should help illustrate the problems the farm producer and the grain elevator industry is seeing. More grain is on the ground after the winter wheat harvest than anytime in modern history.

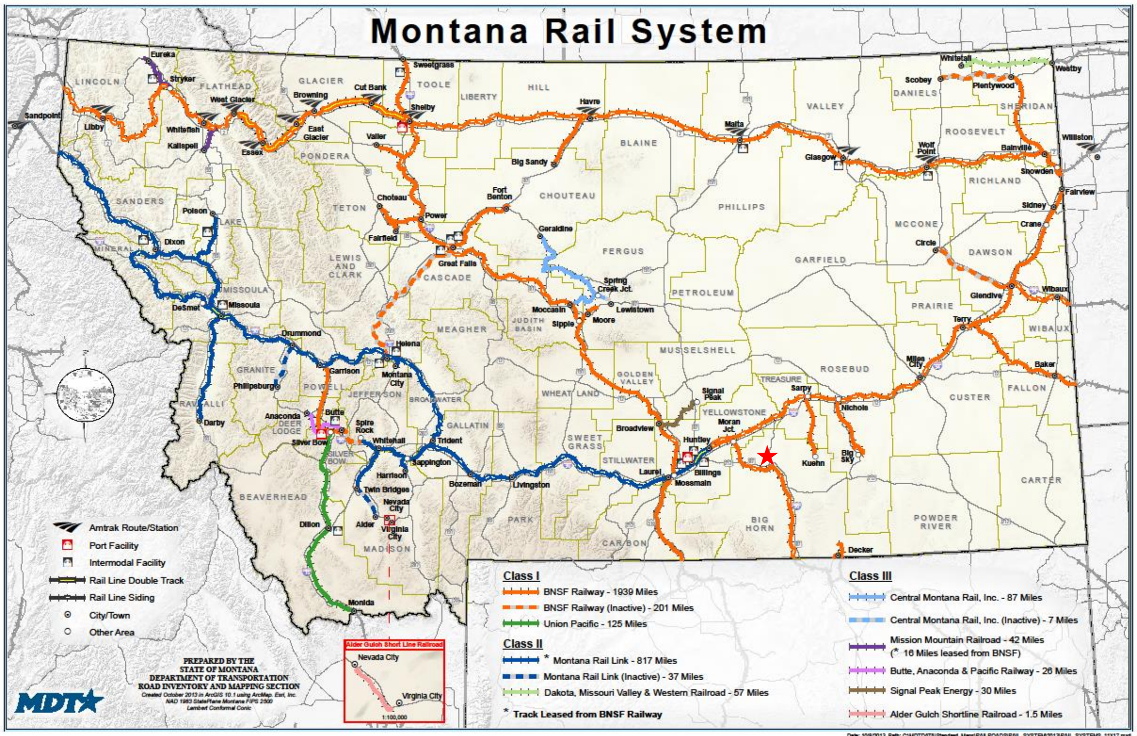
Photo I - Moccasin, Montana 08-14 – advised awaiting rail cars



Date: 10/8/2013 Path: C:\MDTDATA\Standard_Maps\RAILROADS\RAIL_SYSTEM\2013\RAIL_SYSTEMS_11X17.mxd

Photo II – Hardin, Montana Elevator – August 2014 – Awaiting Rail Cars




Montana Rail System
Amtrak Route/Station
Port Facility
Intermodal Facility
Rail Line Double Track
Rail Line Siding
City/Town
Other Area
Class I
BNSF Railway - 1939 Miles
BNSF Railway (Inactive) - 201 Miles
Union Pacific - 125 Miles
Class II
* Montana Rail Link - 817 Miles
Montana Rail Link (Inactive) - 37 Miles
Dakota, Missouri Valley & Western Railroad - 57 Miles
* Track Leased from BNSF Railway
Class III
Central Montana Rail, Inc. - 87 Miles
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(* 16 Miles leased from BNSF)
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Nevada City
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PREPARED BY THE
STATE OF MONTANA
DEPARTMENT OF TRANSPORTATION
ROAD INVENTORY AND MAPPING SECTION
MDT
LINCOLN
FLATHEAD
GLACIER
TOOLE
LIBERTY
HILL
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DANIELS
SHERIDAN
ROOSEVELT
RICHLAND
PHILLIPS
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LAKE
MINERAL
MISSOULA
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CASCADE
FERGUS
PETROLEUM
GARFIELD
MCCONE
DAWSON
PRAIRIE
WIBAUX
MEAGHER
JUDITH BASIN
MUSSELSHELL
ROSEBUD
CUSTER
FALLON
GRANITE
POWELL
RAVALLI
JEFFERSON
BROADWATER
WHEATLAND
GOLDEN VALLEY
TREASURE
YELLOWSTONE
DEER LODGE
SILVER BOW
GALLATIN
SWEET GRASS
STILLWATER
BEAVERHEAD
MADISON
PARK
CARBON
BIG HORN
POWDER RIVER
CARTER
Eureka
Stryker
Sandpoint
Libby
Whitefish
Kalispell
West Glacier
Essex
East Glacier
Browning
Cut Bank
Sweetgrass
Shelby
Valier
Havre
Big Sandy
Malta
Glasgow
Wolf Point
Scobey
Whitetail
Plentywood
Westby
Bainville
Williston
Snowden
Fairview
Sidney
Crane
Circle
Glendive
Wibaux
Terry
Miles City
Baker
Fort Benton
Choteau
Power
Fairfield
Great Falls
Geraldine
Spring Creek Jct.
Lewistown
Moccasin
Sipple
Moore
Polson
Dixon
Missoula
DeSmet
Drummond
Helena
Montana City
Garrison
Philipsburg
Darby
Anaconda
Butte
Silver Bow
Spire Rock
Whitehall
Trident
Sappington
Harrison
Twin Bridges
Nevada City
Virginia City
Alder
Dillon
Monida
Bozeman
Livingston
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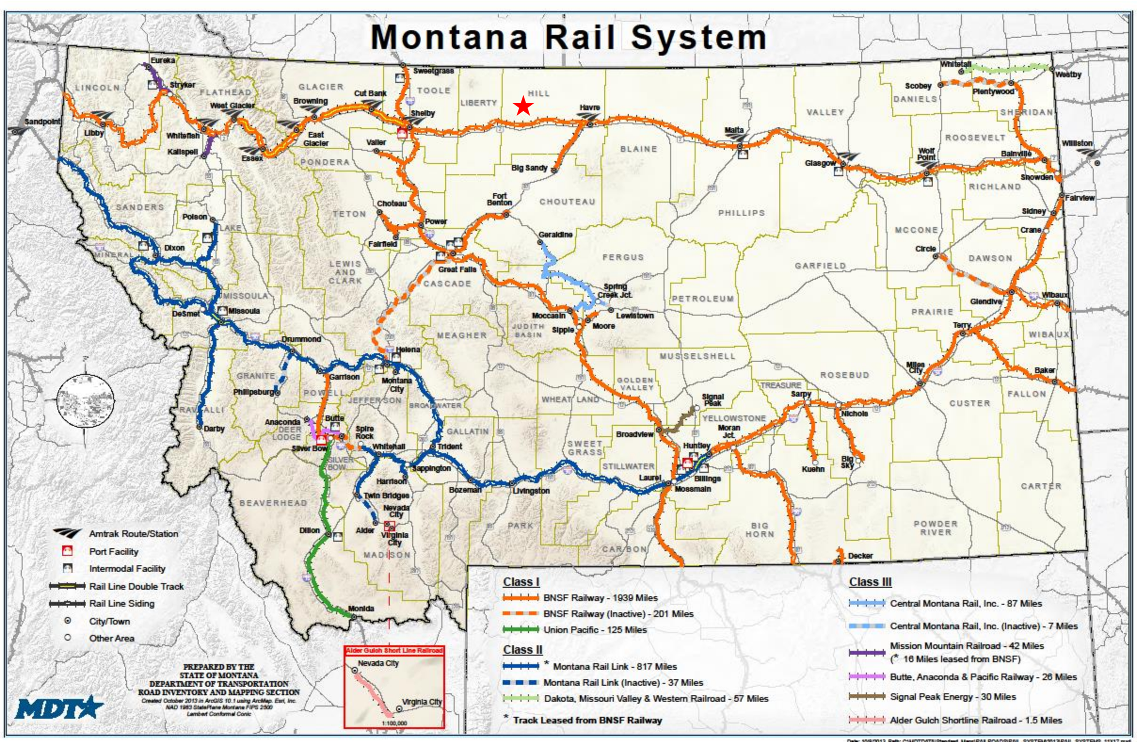
Photo III – Chester, Montana – August, 2014 – EGT - awaiting rail cars – just got rid of last of 2013 pile in early June, 2013



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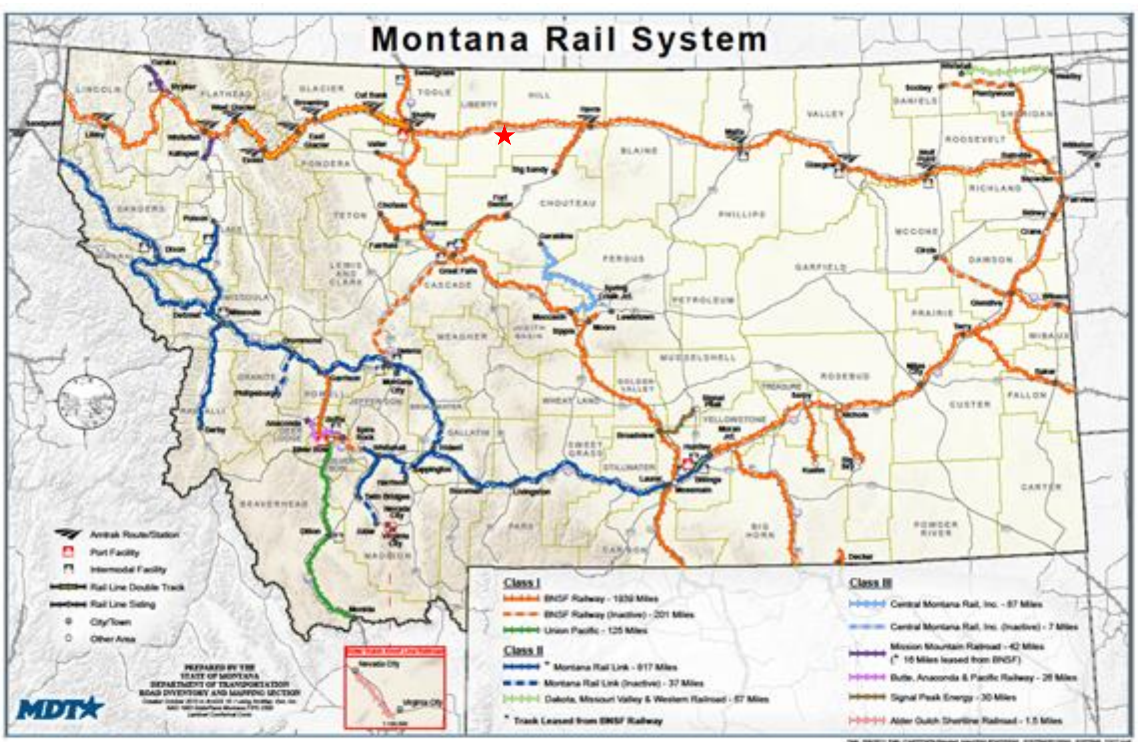

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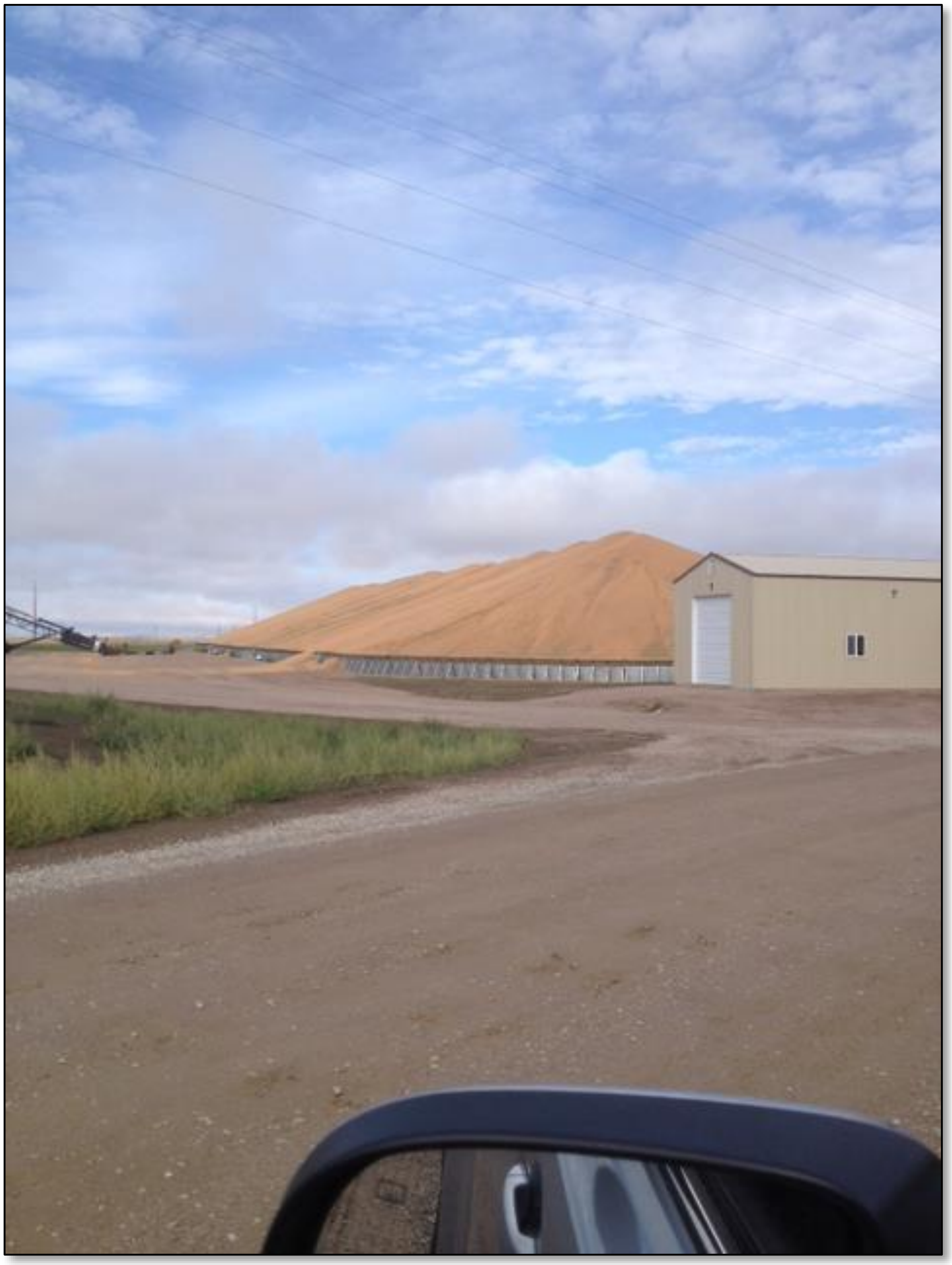

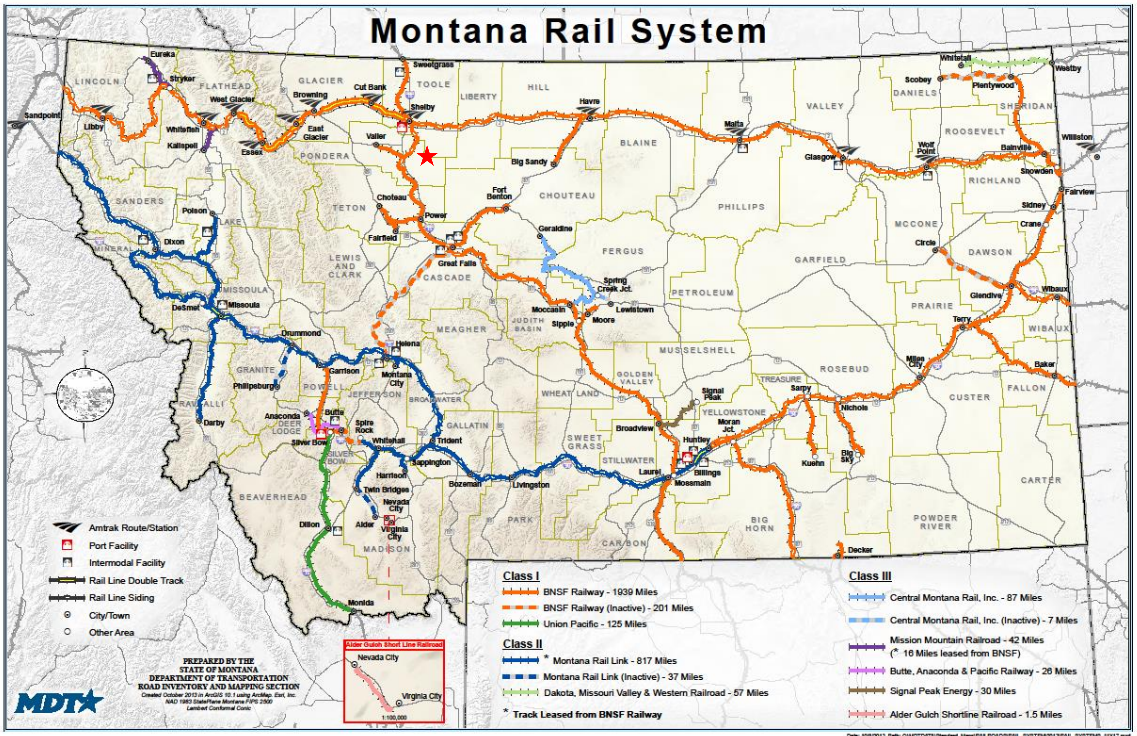

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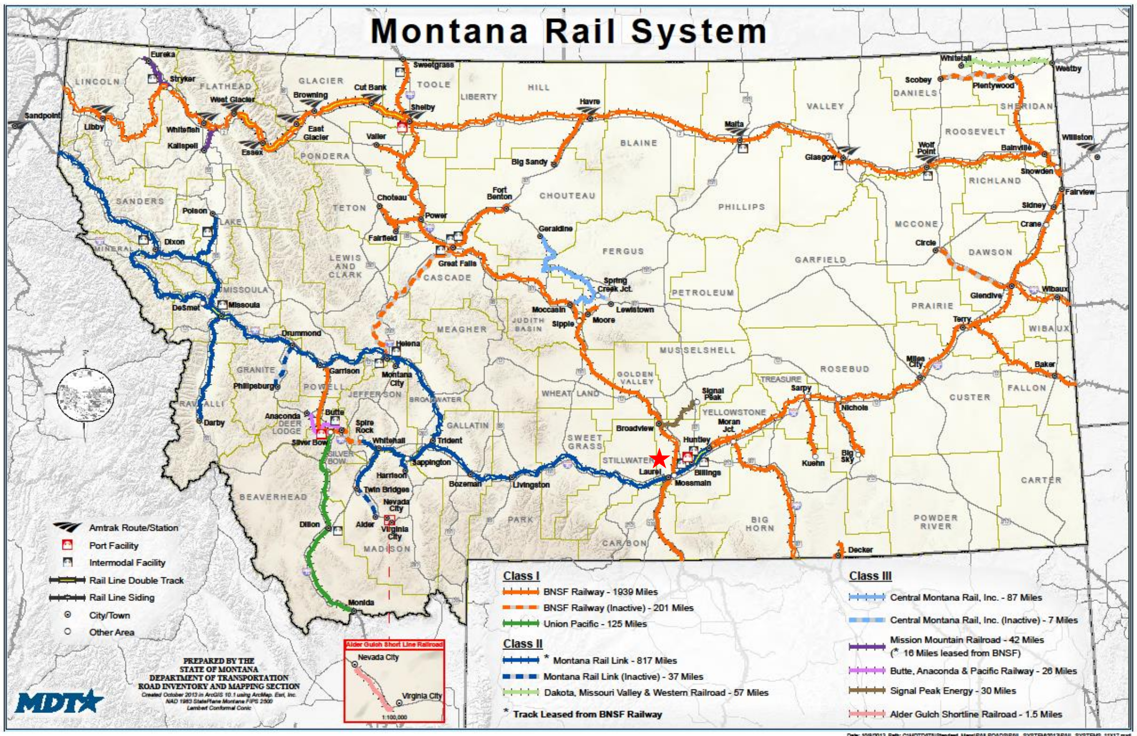
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NAD 1983 StatePlane Montana FIPS 2500
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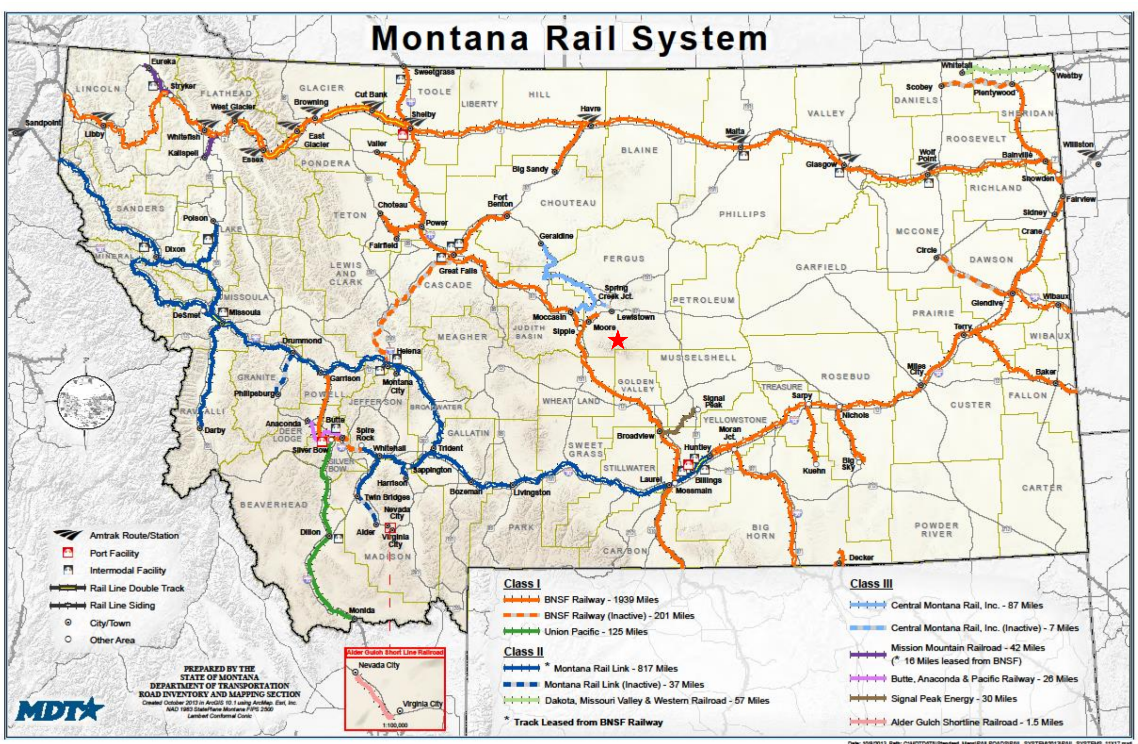

Rail Delays Are Cause Millions of Dollars of Loss to Farm Income

- The strains on BNSF's capacity have already resulted in added costs for grain shippers.
- Basis value due to poor rail service has cost the grain producers millions of dollars in lost revenue – which will never be recovered.
- In a recent ND State University study, based upon basis value – estimated that ND farmers have lost nearly $67 million in the first four months of 2014. The estimate is limited to spring wheat, corn, and soybeans, and does not include potential losses to growers of durum wheat, barley, sunflower, canola, field pea, lentils, dry edible beans, flax, oats, or food grade soybeans. [1]
- BNSF participates in the primary railcar market, but states that it "does not manage or participate in this secondary market."[2] That primary railcar market revenue generated by the BNSF is not included in the calculations of URCS.
- According to USDA, bids in the *primary* railcar market have also been trading at historic highs since late May, 2014 for guaranteed railcar placement for grain shipments in August, September, and October. Bids

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1 http://www.grainnet.com/articles/North_Dakota_State_University_Study_Finds_State_Farmers_Have_Lost__67_Million_to_Rail_Shipment_Delays-141184.html

2 http://www.bnsf.com/customers/what-can-i-ship/grains-feed/faq.html

for the week ending July 17 ranged between $2,700 and $3,200 per car for BNSF's guaranteed grain car placement in September and between $2,800 and $3,000 per car for placement in October. In the previous 10 years, there was very little monthly trading and bids rarely exceeded $700.[3]

- Although farmers and shippers are incurring higher rail transportation costs, railroad service, particularly on BNSF and CP, has deteriorated within the last year.
- The Pea and Lentil growers have been hard hit because they load traditionally at less-than-shuttle (smaller) elevators – and some of these less-than-shuttle facilities are reporting back-orders up to 120 days behind. Reports of Pea, Lentil and pulse growers have to recertify rail car loads because their photo-sanitary 30 day certificates ran out in 30+ day rail transit times.
- Turkey producers in the northern states are running short of propane for the second year in a row due to inconsistent or non-existent deliveries of propane. Propane is utilized to heat the turkey barns and the shortage is especially acute going into this fall. I submit for the record an email from the National Turkey Producers Association outlining the problem.

Based on the most recent data reported to and available from the STB, railroad grain rates have significantly increased in the last two quarters (4Q 2013 and 1Q 2014

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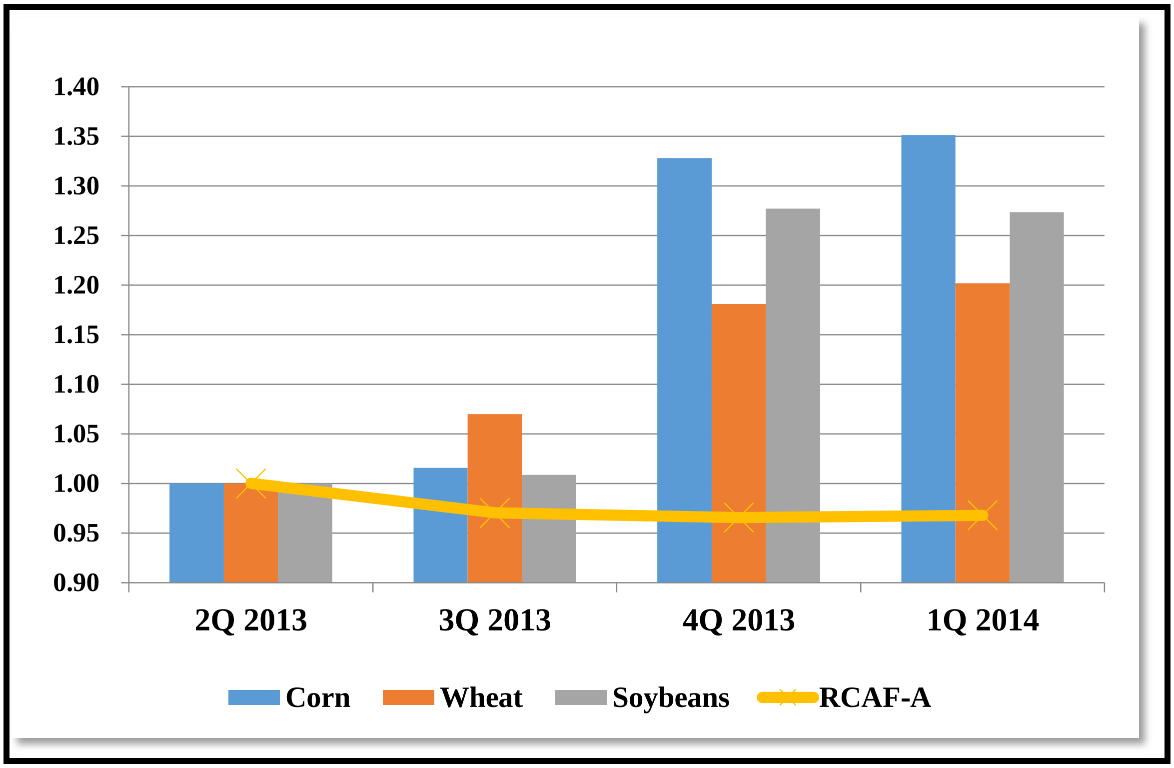
[3] http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5108470

Freight Commodity Statistics). This is illustrated in the following graph, which compares recent increases in BNSF's revenue per ton carried for corn, wheat and soybeans with the change in the STB's Rail Cost Adjustment Factor, Adjusted (RCAF-A) (2Q 2013 = 100):

Table II

Recent Increases in BNSF Grain Rates Per Ton Carried

Poor Service = Tighter Capacity = Higher Prices



USDA recently announced that it expects corn growers will produce a record-high crop at 14.0 billion bushels of corn, up 1 percent from 2013 which was also a record at the time. USDA also expects a record soybean crop of 3.82 billion bushels in 2014, up 16 percent from last year.[4]

[4] http://www.nass.usda.gov/Newsroom/2014/08_12_2014.asp

Testimony Review Before The STB Ex Parte 724 – Fargo – September 4, 2014

Terry Whiteside, Whiteside & Associates – Billings, Montana

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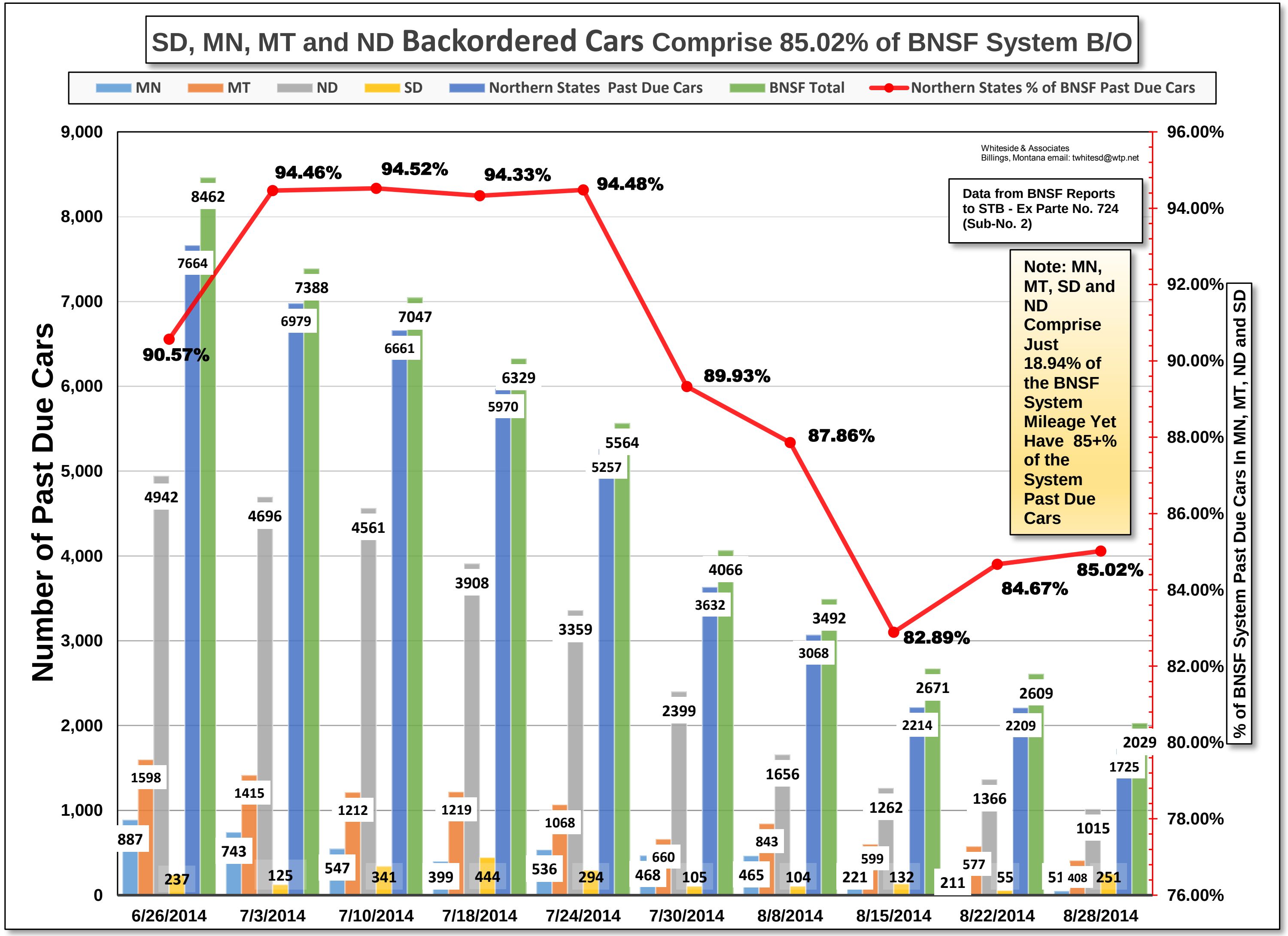

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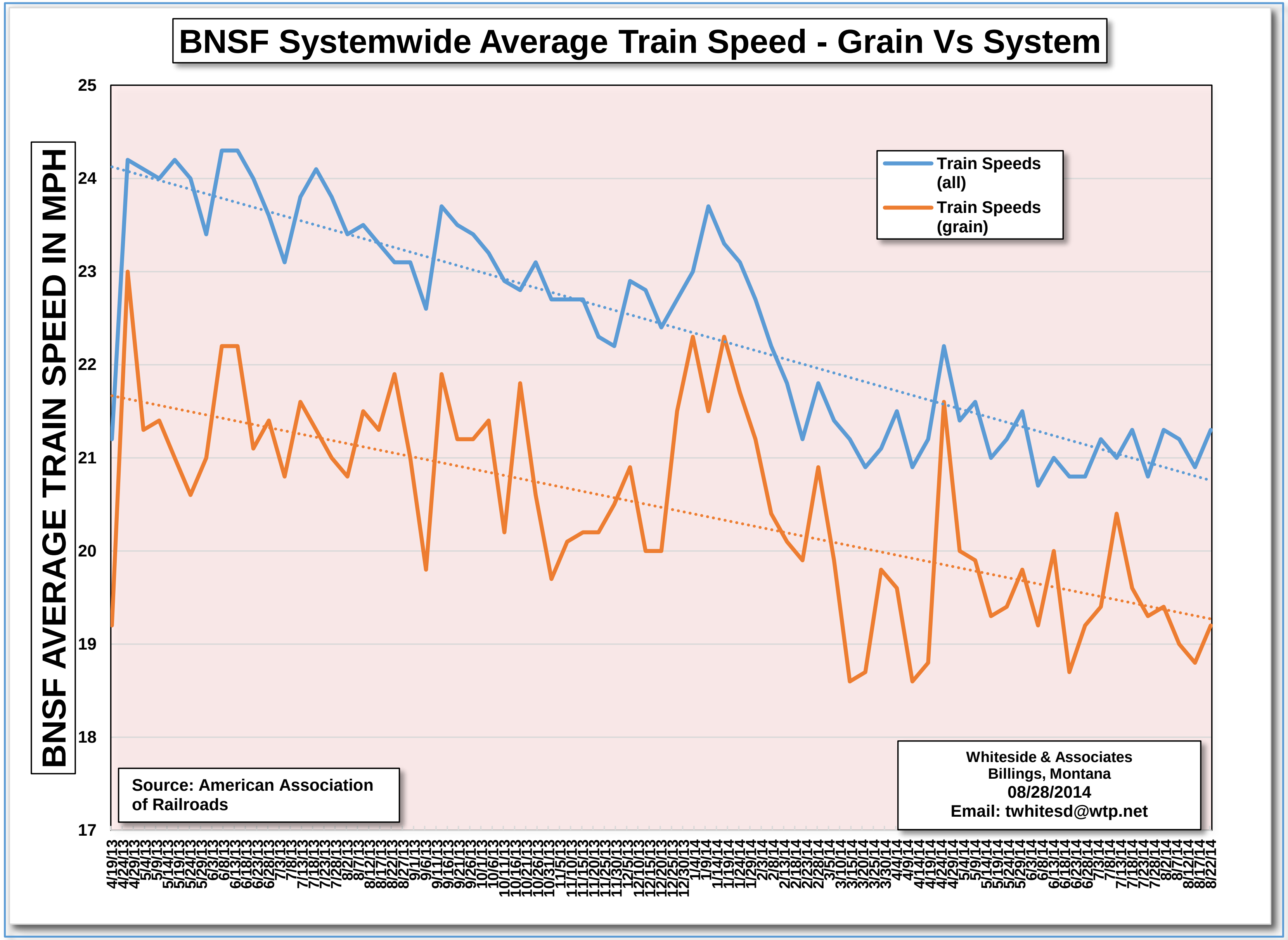

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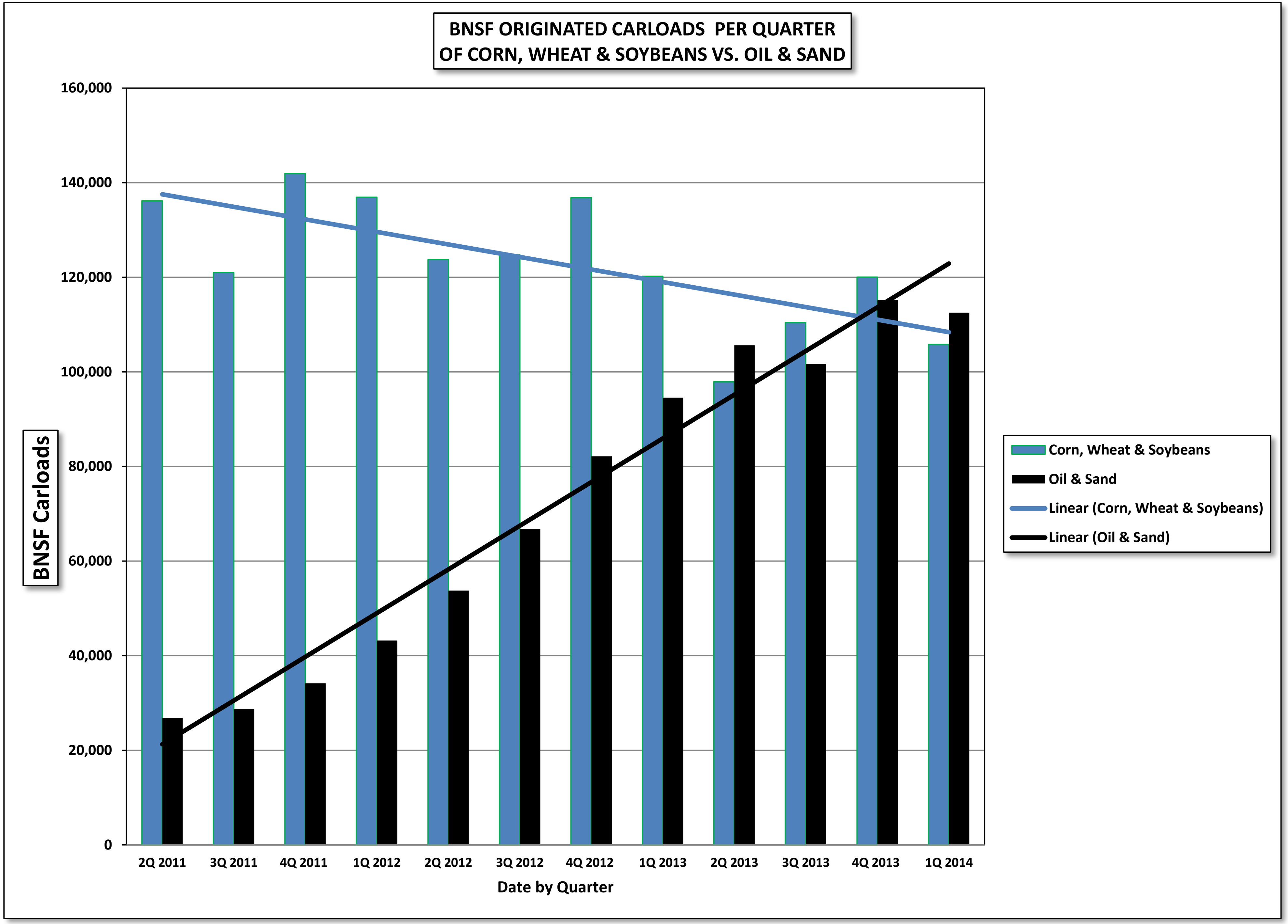
BNSF ORIGINATED CARLOADS PER QUARTER
OF CORN, WHEAT & SOYBEANS VS. OIL & SAND
BNSF Carloads
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
2Q 2011
3Q 2011
4Q 2011
1Q 2012
2Q 2012
3Q 2012
4Q 2012
1Q 2013
2Q 2013
3Q 2013
4Q 2013
1Q 2014
Date by Quarter
Corn, Wheat & Soybeans
Oil & Sand
Linear (Corn, Wheat & Soybeans)
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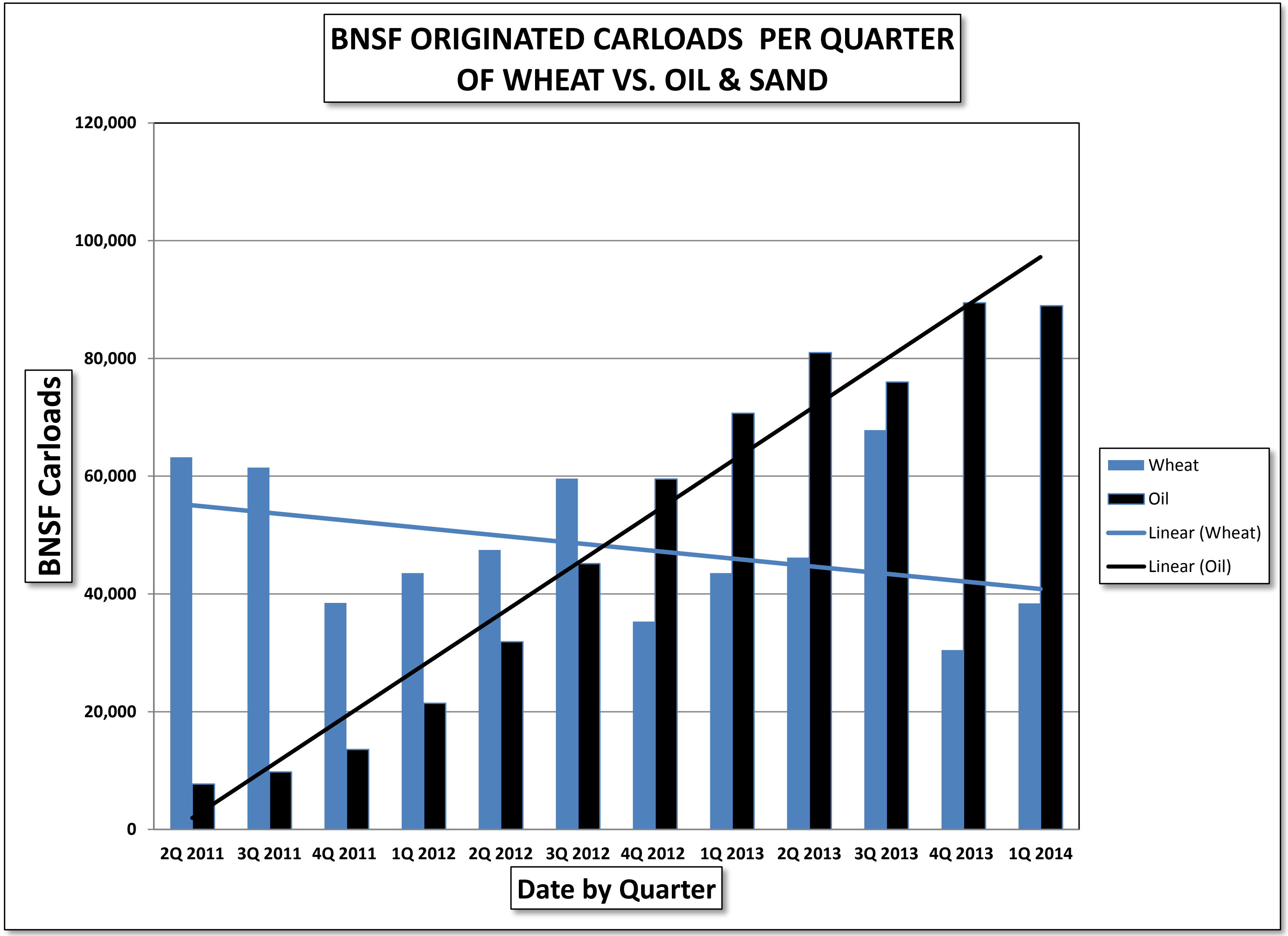
Chart IV

BNSF Originated Carloads Per Quarter of
Wheat Compared to Oil and Sand



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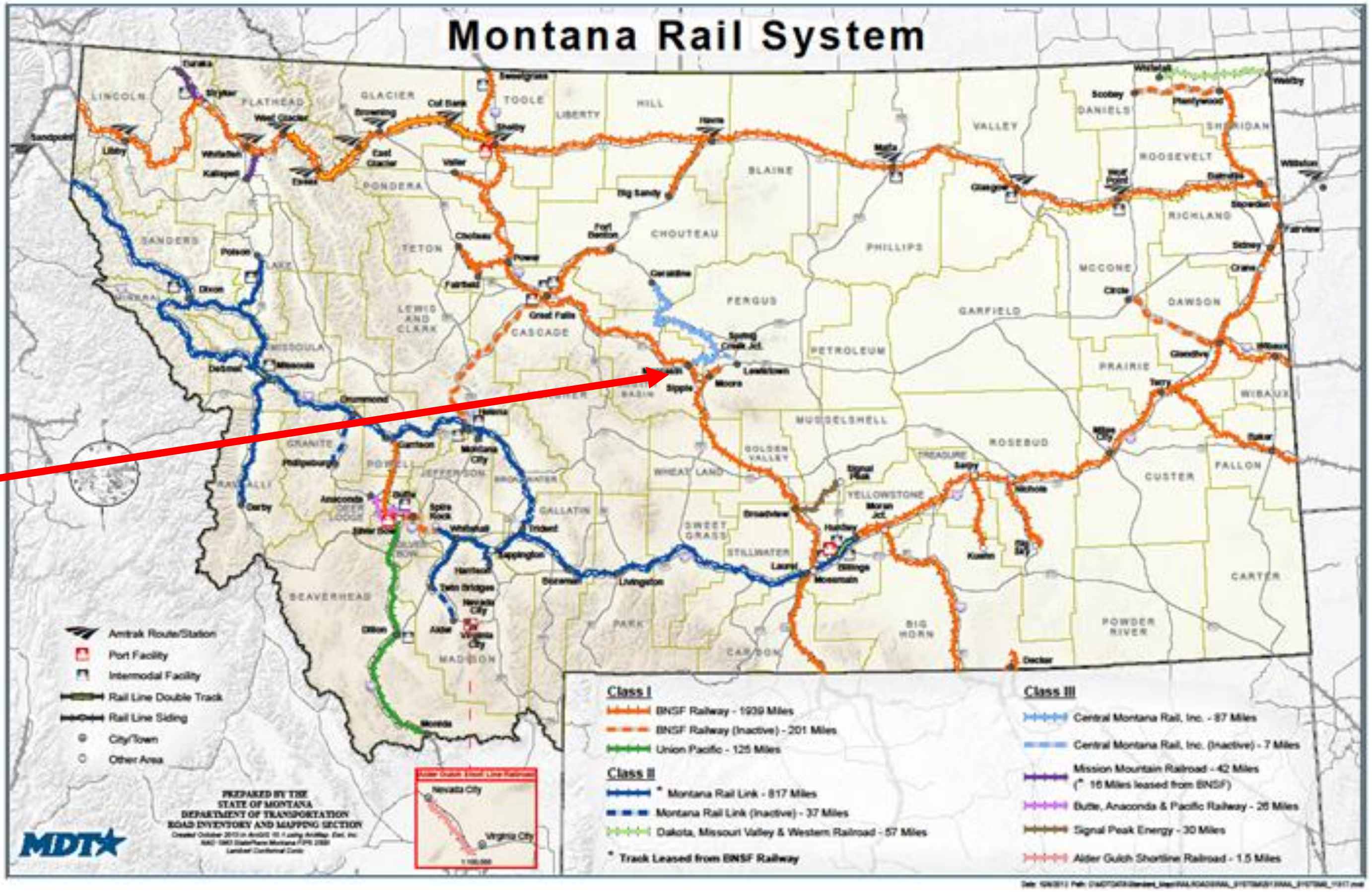

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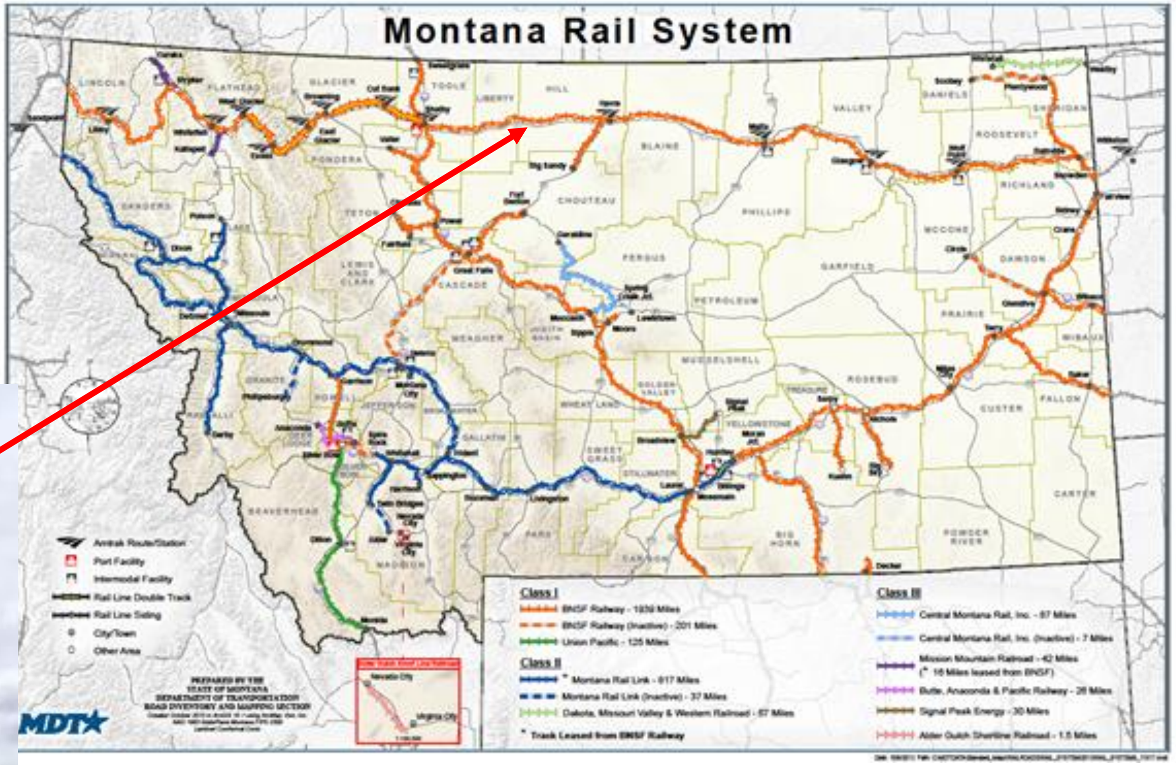

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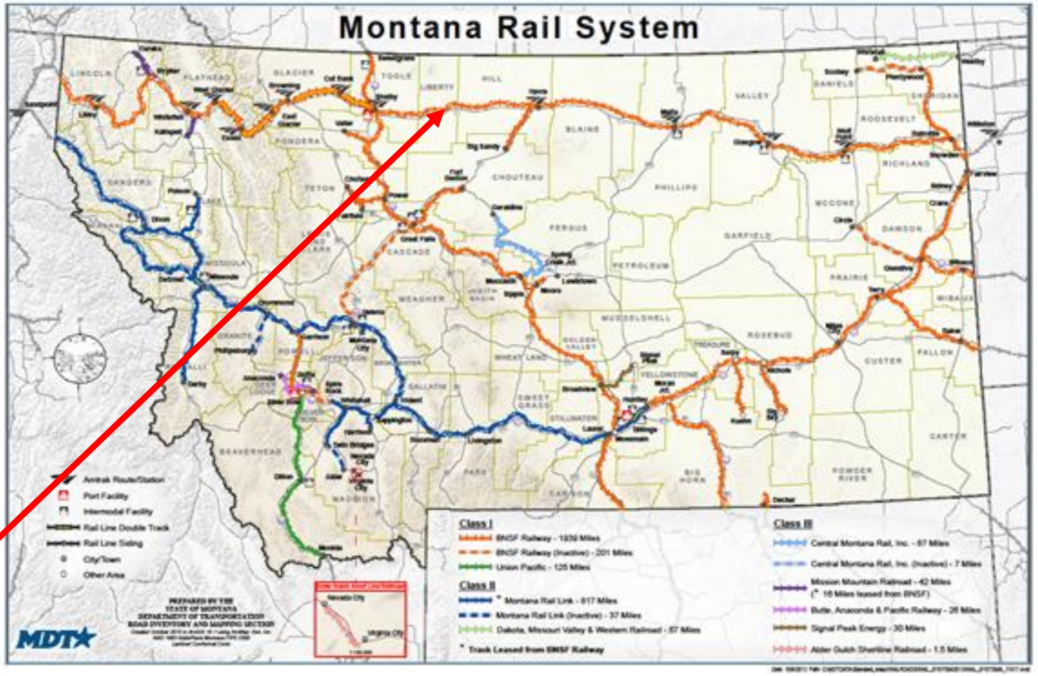

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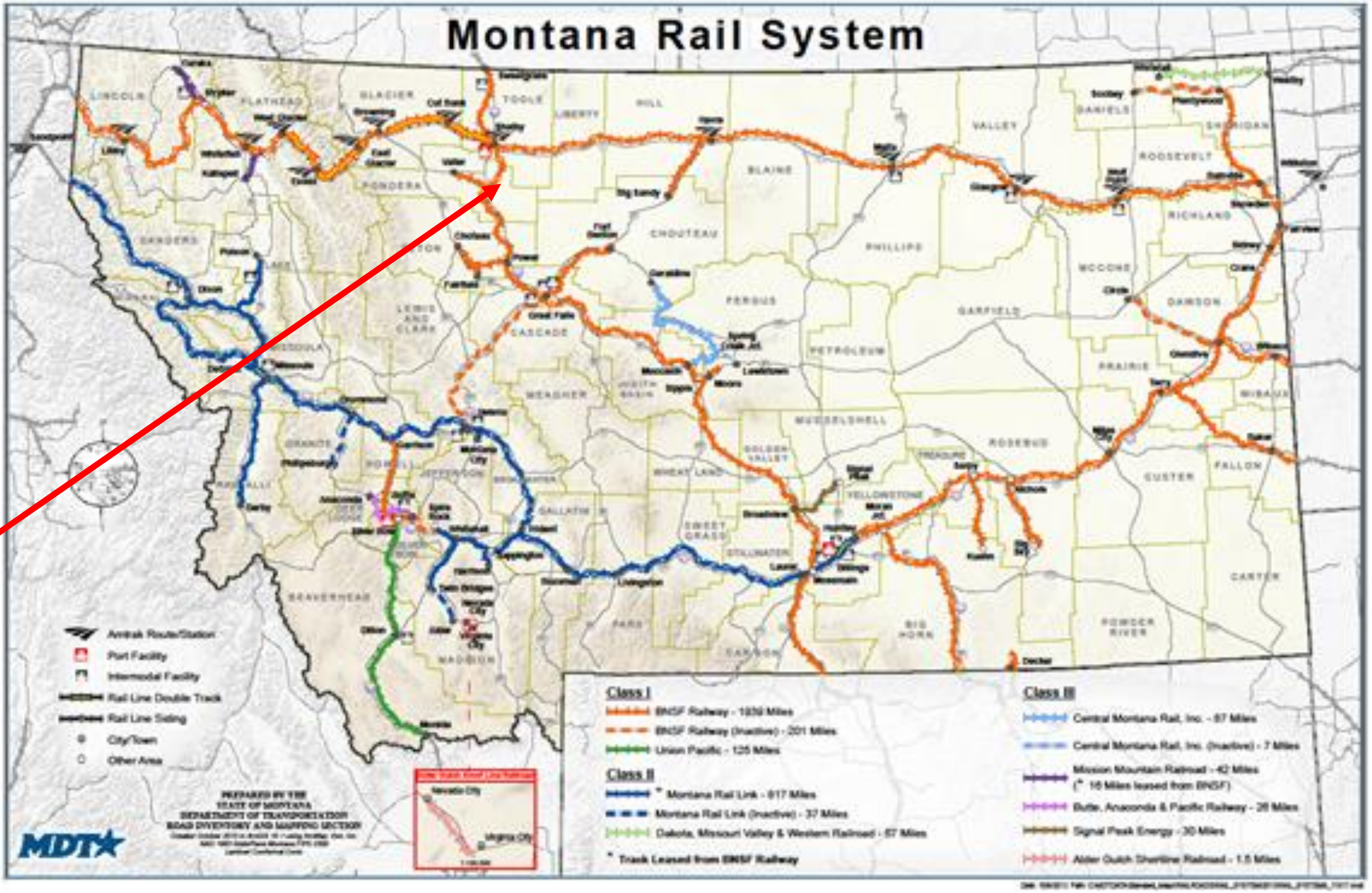

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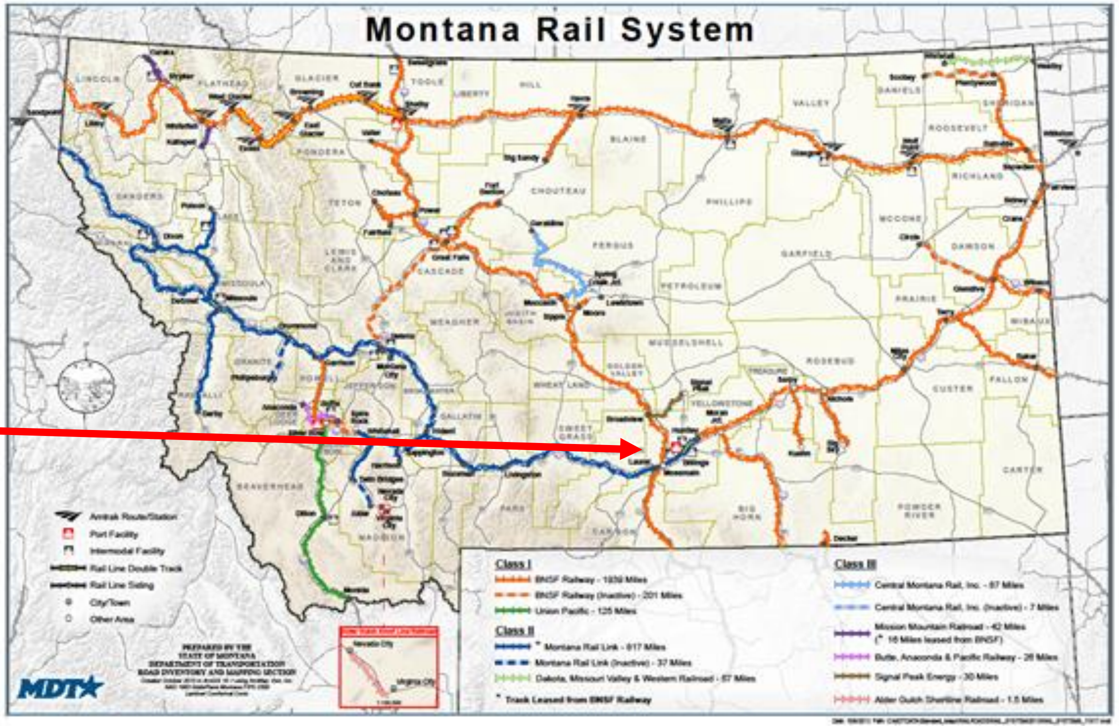

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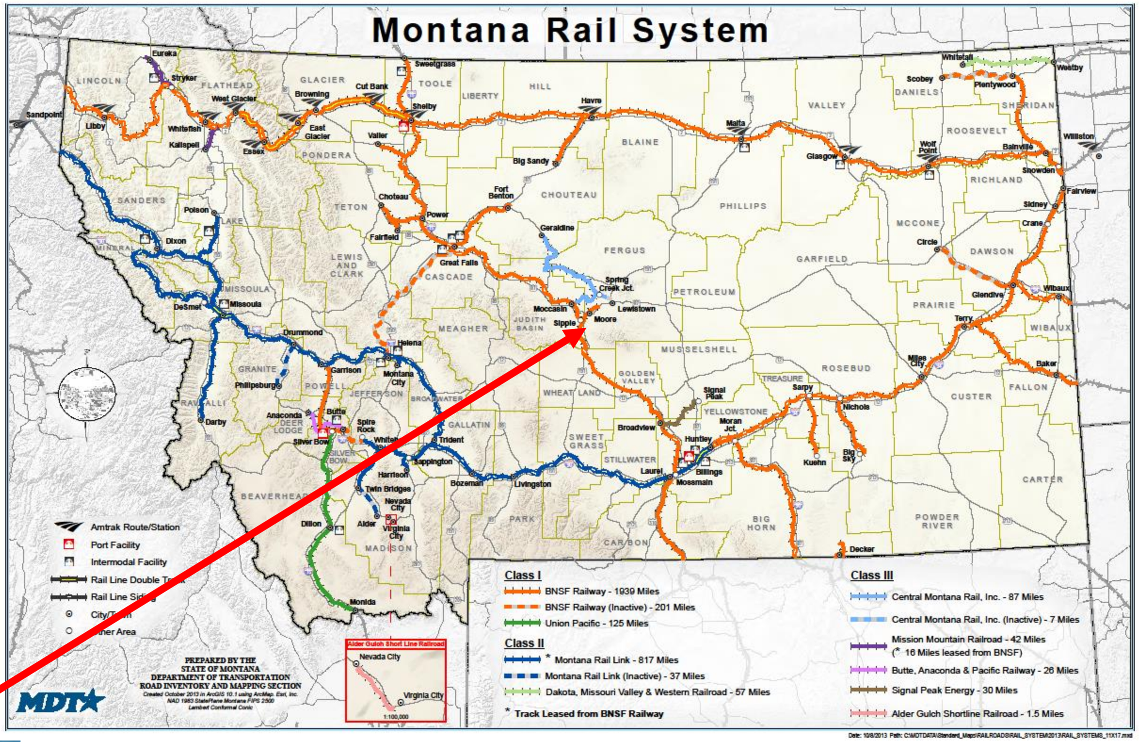

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