



Before the Surface Transportation Board
Docket No. EP 705: Competition in the Railroad Industry
April 11, 2011
Comments submitted by the Montana Grain Growers Association

Thank you for this opportunity to comment on competition in the railroad industry.

The Montana Grain Growers Association (MGGA) was established over 50 years ago to address the business needs of small grain producers in Montana. Our members represent over 5.5 million planted acres of mostly wheat and barley across the state. Since our inception, rail competition issues have been a high priority. In fact, the rallying cry against discriminatory freight rates, which were the highest in the U.S., served to unite Montana growers who created MGGA to serve as their common voice in seeking solutions to this problem.

Previous efforts to address our rail competition issues included complicated regulations and stalled policy solutions with lawyers and consultants hired by various groups of producers to propose new regulations and file lawsuits. In 2005, MGGA leaders weary of the lack of progress on rail competition issues and of not being recognized by either the STB or the railroad as a true customer, came together to begin honest and open discussions with our primary rail carrier, BNSF Railway. At the heart of this new partnership was an effort to understand each other's businesses with producer education on rail profitability, markets and economics and the railroad's education on regionalized production areas and delivery, marketing practices and shipping needs.

The primary benefit to our work thus far is the establishment of a working relationship as the railroad's customer and recognition of the railroad as an industry partner. This will be important going forward as markets change, costs escalate, and individuals come and go.

From these efforts, the Montana Rail Coalition has become committed to being honest in its rhetoric and dealings with BNSF. Education in both directions is bringing unexpected benefits. Understanding of the grain business, markets, and rail will increase producer profitability, as it is incorporated into the grassroots level. Conversely, we expect the railroad to see efficiency gains and market opportunity as a result of producer insight.

Transparency of service is another benefit. A weekly posting of car orders and deliveries creates accountability and sheds daylight on the whole pipeline. This information can be found on the Montana Grain Growers Association marketing information website, Montana MarketManager Online. Producers and BNSF have begun to work together to anticipate grain movement and demands on rail service.

And establishment of the BNSF Ombudsman program gives producers local access to the whole BNSF Ag Division and allows the railway real-time insight to local operations.

As a direct result of this two-way accountability initiated in Montana, the system-wide Ag Rail Business Council was established, with representation from the U.S. corn, soy, wheat, and pulse industries. Additionally, a Montana producer was invited to sit on the BNSF Customer Advisory Board, allowing greater understanding of BNSF Railway operations.

The culmination of this trust, education, and commitment is manifested in a formal Mediation and Binding Arbitration Agreement signed in January, 2009 by the Montana Grain Growers Association, the Montana Farm Bureau Federation, and BNSF Railway. This legal agreement, for the first time, creates legal status for Montana producers as railroad customers. It is designed to solidify a long-term accountability and dialogue for all parties.

Some specific by-products of these historic efforts:

- Reduction of the 52-car vs. shuttle tariff differential from 15 cents to 5 cents.
This was done in 2006 to increase the viability of smaller elevators until broader shuttle facilities were in place. With producer input and the building of new facilities, this spread has again been widened. We understand the value to Montana agriculture of single, 26-car, and 48-car elevators, especially for barley and domestic wheat shipments. In the fall of 2010, we again lowered the 48-car tariff to narrow the shuttle/48 spread which we believed had become excessive. Since then, several shuttle projects have been announced or privately discussed, and this is a great development for our grain producers.
- Freight discounts on barley to the west coast for export, and east to malt plants.
We are working with BNSF to move barley and malt to Mexico as well. The intent is to develop and expand markets, which benefits all parties.
- Early adoption of mileage-based fuel surcharge, eliminating a surcharge based on rates.
Prior to this, fuel surcharges were calculated as a percentage of the tariff. The next year, STB followed suit, requiring fuel charges to be mileage-based for most tariff rail freight.
- Development of competitive Destination Efficiency Trains (DET) to the domestic mills and the California market.
These give MT producers the ability to compete in a larger market. DETs can separate into smaller pieces, facilitating access to smaller customers such as domestic flour mills. These trains run at freight rates very near to shuttle tariffs.
- Producer guidance on grain facility planning.
Two new shuttles have been built with coalition input; more are being discussed.
- BNSF commitment to service of Great Falls to Fort Benton branch line.
This branch into the Fort Benton area was at risk due to maintenance and volume issues. Coalition input helped find solutions and resulted in a solid future for service.

➤ Competitive freight rates.

There have been a number of tariff reductions both east and west, and a handful of increases on select moves. All of these adjustments have been weighed and considered with the shared goal of opening and expanding markets. This has put Montana producers in a new position, with freight rates below or comparable to the rates in other wheat states. BNSF Railway has committed to giving the Coalition advance notice of rate changes. Our informal mediation since August 2005 has been very successful.

➤ Formal mediation of rates.

The first formal case utilizing our Agreement to Mediate and Arbitrate was initiated in November 2009. The January 2010 shuttle train freight rate for Shelby to the Pacific Northwest for export was examined by our steering committee and taken to mediation with BNSF Railway. The result was a \$165/car reduction of the January 2010 tariff rate at Shelby, plus smaller reductions at other shuttle stations to protect the important competitive relationships between elevators.

➤ Producers have a new status as rail customers.

BNSF has committed itself to regard Montana producers as customers. In the past, the grain companies held that position alone. Our responsibility is to be knowledgeable, honest, and engaged—in short, to be good customers. This new way of doing business is enhancing our credibility and effectiveness with the STB, Congress, BNSF, and, most importantly, with our producers.

Respectfully submitted,



Gordon Stoner, President
Montana Grain Growers Association