UNITED STATES OF AMERICA

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SURFACE TRANSPORTATION BOARD

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PUBLIC HEARING

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UNITED STATES RAIL SERVICE ISSUES	Ex Parte No. 724

Suite 120
395 E Street, S.W.
Washington, D.C.

Thursday,
April 10, 2014

The above-entitled matter came on for hearing, pursuant to notice, at 8:30 a.m.

BEFORE:

DANIEL R. ELLIOTT III Chairman

ANN D. BEGEMAN Vice Chairman

T-A-B-L-E O-F C-O-N-T-E-N-T-S

P-R-O-C-E-E-D-I-N-G-S

(8:31 a.m.)

CHAIRMAN ELLIOTT: Good morning. Welcome. The Board has called today's hearing to discuss the service problems that have been occurring across significant portions of the nation's rail network.

At the outset, I want to thank everyone, government representatives, carriers and shippers, for appearing on such short notice. We did not want to delay initiating a public discussion on an issue that is clearly impacting so many.

I hope this meeting will spur more open dialogue between shippers

(Interruption in audio)

CHAIRMAN ELLIOTT: -- and follow this meeting with more local meetings to further that goal.

The Board has been closely watching the rail industry's performance metrics, and we are very concerned about the effects of these service issues. Shippers have also contacted the Board to express concerns such as slow and unfulfilled orders, car delays, and increased cycle times particularly on Canadian Pacific and on the northern segment of the BNSF system.

We wrote to BNSF and CP to express our concerns, and Vice Chairman Begeman and I met individually with senior management from these two railroads. The Board's Rail Customer and Public Assistance program, or RCPA, have been working with shippers and railroads to facilitate resolutions to specific service issues wherever possible.

One of their goals is to get shippers and railroads in direct communication about acute service issues, which can sometimes be a hurdle. That process will continue, and we urge shippers and carriers to take advantage of it.

I'd also like to point out that a number of the shippers who have contacted RCPA have not given RCPA permission to speak to the railroad on their behalf. That doesn't mean those shippers' concerns aren't being heard. Based on what we've been hearing from shippers and the information we've been getting, it was important to have a public opportunity for shippers to share their perspectives with the Board and with railroad representatives.

It is equally important for railroads to demonstrate how they are responding to these issues. CP and BNSF should address what they've done already to remedy the service issues, what their plans are going forward, and when they expect to return to normal service.

We also have a number of other Class I carriers who will discuss what is happening on their networks. I noticed some shippers couldn't be here today. As the Board's hearing notice said and as I mentioned, we are looking to have follow-up meetings outside of Washington so that we can better understand the issues that shippers are facing.

Board staff recently held meetings in North Dakota with dozens of shippers from several states. We anticipate similar meetings in other areas. In addition, written comments may be filed in this docket pursuant to yesterday's decision.

We also know that shippers are looking for more information from the railroads about when things are going to get better and what the railroads are doing to make that happen. This hearing is a first step in that effort.

As for the railroads, we urge you to work to address service issues within your companies, with your customers, with the Board, and with other carriers. Ultimately, carriers are responsible for developing plans that allow them to serve their customers.

If Board authority, for example, authority for trackage rights, is necessary to prevent severe shipper impact such as a plant shutdown, you need to bring that to the Board a.s.a.p, and we will act on it a.s.a.p. If RCPA can assist in addressing a shipper issue, you need to use them as a resource. I just want to stress that we'll do whatever we can to help.

Before we begin, let me just take a few moments to review a few procedural points about today's hearing. We want to hear today from every party that has filed a Notice of Intent.

To allow that to happen, we will ask parties to stick as closely as possible to the time that has been allotted. We recognize that that is not always going to allow you to say everything you want to, but we want to make sure there is an opportunity for everyone to speak.

You will have a light before you at the front of the room. One minute before your allotted time is expired a yellow light will appear. When you see the red light your time is expired. Please conclude your thought at that point.

If you are scheduled to speak, please make sure that you check in with the clerk at the front of the room. To the carriers, I would ask that you ensure that you have representatives in the room for the entire hearing, even after your testimony, to hear shippers' concerns and possible solutions.

I've also been asked to remind speakers to please speak clearly into the microphone. In addition, the public should be aware that a video archive of the entire hearing will be placed on the STB's website within a few days of the close of the hearing.

In the unlikely event that we have a fire alarm or other event requiring evacuation, please proceed in an orderly fashion out of the double doors at the back of the hearing room and out of the building through the front entrance. Specific instructions have been posted at the back of the hearing room for assembly and notification of return, if any, to the hearing room following any evacuation.

Also a note regarding PowerPoint presentations. If you haven't done so, within the next two days please provide two hard copies of the PowerPoint presentation to the Office of Proceedings. Finally, if you have not done so already, please turn off your cell phones.

With that I will turn it over to Vice Chairman Begeman.

VICE CHAIRMAN BEGEMAN: Thank you. I want to begin by thanking the chairman for agreeing to hold this hearing so that we have an opportunity to discuss the very serious rail issues that are affecting a large portion of this country. Not the entire country, but important segments of the country.

And I also want to thank all of

the witnesses -- the shippers and the carriers. I certainly recognize it's a relatively short-notice hearing, and that's because of how important we view this issue.

I know shippers have gone to great expense to be here, to fly from the Midwest. It's not easy to get here. You don't have direct flights, and it costs a lot of money on short notice. So thank you for the effort.

As the chairman mentioned, he and I met separately over a month ago with both the presidents of Burlington Northern Santa Fe and well as CP. I had a lot of questions during my very long meetings with them. I still have a lot of questions.

I want to hear an update on where they are since we last met. Certainly I've been following the data that they've provided us. It's not all good news, I will say that. But, I hope that this hearing will let the shippers and the Board really become informed on what our expectations should be. I'm not looking only for the good news, I want the truth.

You should know, I hold you railroads accountable. I don't want to micromanage your operations, but that said, we do have emergency service order authorities and if we need to use them, that's going to have to be on the table. I don't think we're there yet, but I really look forward to hearing from you and we will continue this dialogue in the days ahead. Thank you.

CHAIRMAN ELLIOTT: Thank you, Vice Chairman. Also I saw yesterday it was 71 in Minot, so hopefully that'll be helpful. I still have that on my weather.com site. So I want to start on a positive note.

So why don't we begin with Panel Number 1. We have the administrator of the Federal Railroad Administration here, and Mr. Szabo, why don't you begin?

MR. SZABO: Well, thank you, Chairman Elliott and Vice Chairman Begeman.

On behalf of Transportation Secretary Anthony Foxx, thank you for the opportunity to testify today about the negative impact service degradation in our nation's rail network can have both on rail safety and Amtrak's on-time performance.

Let me talk first about FRA's top priority which is safety. Over the past decade, our database oversight and enforcement program has helped the industry achieve a 47 percent decrease in both train accidents and derailments, and a 35 percent decrease in highway rail grade crossing accidents.

By virtually all measures, fiscal year 2013 was the safest year on record. But the bottom line is we owe it to the public to always do better. And that's why the railroad's weekly metric showing railroad performance declines among the Class I carriers are a big concern to us.

As railroad performance declines, rail velocities diminish, cars on line increase, terminal dwell times increase, and above all, our past experience tells us that safety can suffer as well.

We saw this firsthand with the significant service degradation that Union Pacific and Southern Pacific faced about 15 years ago when we testified before this Board, and this was an example of how quickly operating conditions can change and affect safety.

Experience tells us there can be a safety breakdown when it comes to the ability of supervisors to perform their jobs as a consequence of additional work pressures. Ineffective crew utilization can lead to employee fatigue, and in order to ensure adequate rest, crews need absolute predictability as to when they go to work.

And as the railroad pushes to gain the upper hand on service issues it becomes necessary to hire new employees, and without adequate training that instills the proper safety culture there's risk that the number of accidents can rise.

As large of a role that the nation's freight railroads have in serving our nation's business and economy, no concern can ever come before safety. And so that's why we've been monitoring the situation closely and have begun meeting with the railroad CEOs to gain assurances that carriers are operating in the safest manner.

In BNSF's letter to the Board in response to the Western Coal Traffic League's request for proceeding concerning rail service problems, the railroad announced that it will be hiring 5,000 employees in 2014 to relieve these service pressures. And while this is laudable, it's imperative that the railroad undertake the proper training to ensure that the railroad operates in the safest manner.

We've also noticed a marked increase in delays to Amtrak trains and associated degradation in on-time performance.

DOT and FRA provide financial assistance to Amtrak to partially fund its operations and capital investments, and work to support Amtrak's efforts to enhance its passenger rail services. For these reasons Amtrak's financial performance is of great interest to us.

And in keeping with our nationwide mandate to improve the safety of passenger and freight railroads, we focus closely on the safety of Amtrak's facilities, equipment, and transportation operations, and it should be noted that Amtrak has set ridership records ten out of the last 11 years, and last year it was relied upon by more than 32 million travelers.

So service issues that ultimately delay intercity passenger trains have many negative implications for travelers, for Amtrak, and the transportation network as a whole.

Late trains that cause travelers

to miss connections or abandon their travel plans entirely reduce ridership, and additional operating delays cause Amtrak immediate and potentially long-term financial harm. A slower, less efficient passenger rail network reduces travel options for some and may put more strain on other modes of transportation.

And so DOT and FRA closely monitor the on-time performance of Amtrak services, because even just a few months of poor performance have the potential to cascade into long-term problems.

Over the past 12 months we've witnessed a steady decline in timeliness of Amtrak trains, particularly those that operate over the freight rail network. Only about 63 percent of Amtrak's long distance trains reached their endpoint on time between March 2013 and February 2014, 12 percent worse than the previous 12-month period.

From December 2013 to February

2014, half of all long distance trains were late to their final destination. On time arrivals to intermediate stations on long distance routes were even less frequent, only at 48 percent over the last 12 months, and just under 40 percent this past December through February.

Shorter state corridor trains did not fare much better, with nearly a quarter of them arriving late over the past 12 months. Amtrak's on-time performance has been a long-term interest of this Department and of Congress, and Amtrak tracks and reports all train delays to FRA.

For February 2014, the month for which data was most recently reported, delays attributed to the host freight railroad were the highest in over five years. The largest category of Amtrak delays in recent months has been host freight train interference.

Such a designation is based on the Amtrak conductor's immediate observable cause, and these extreme delays to Amtrak and other users of the network are a symptom of a fragile network that is strained and struggling to react.

So thank you for the opportunity for DOT to comment in this proceeding, and I'm happy to answer any questions that you have.

CHAIRMAN ELLIOTT: No questions. Thank you very much. We always appreciate hearing from you, and

MR. SZABO: I'm dismissed.

CHAIRMAN ELLIOTT: You're dismissed.

MR. SZABO: Thank you.

CHAIRMAN ELLIOTT: Take that long commute back.

MR. SZABO: Yes, on foot.

CHAIRMAN ELLIOTT: And why don't we bring up the second panel.

(Pause)

CHAIRMAN ELLIOTT: Okay, why don't we begin. We'll go across this way. We'll let you guys provide your testimony, and subsequently we'll ask questions after everyone's done.

MR. MCMILLAN: Very good. Good morning, Chairman Elliott and Vice Chairman Begeman. My name's Dave McMillan. I'm senior vice president of external affairs for ALLETE, and executive vice president for Minnesota Power.

I'm appearing here today on behalf of the Western Coal Traffic League and Minnesota Power. The League is comprised of shippers of coal mined in the western United States. Currently, the League members pay to transport about 140 million tons of coal annually.

ALLETE is a diversified energy company headquartered in Duluth, Minnesota. Our principal operating division is Minnesota Power generating, transmitting, and distributing electricity across a 26,000 square mile chunk of northern Minnesota to about 144,000 customers, 16 municipalities, and some of the nation's very largest industrial customers.

Coal is our primary fuel source, and we currently operate three coal-fired power plants that utilize about five million tons of coal a year. This coal originates at mines in Wyoming and Montana, transported by BNSF either in single carrier or joint carrier service.

Minnesota Power is a long-term member of the Coal League. I'm joined here today by a second Coal League member, Bob Kahn. Bob is the general manager of the Texas Municipal Power Agency. Bob's remarks will follow mine.

On behalf of the League, Minnesota Power, and Texas Municipal, I want to thank the Board for holding today's timely and important hearing. The League has submitted two filings with the Board, one dated March 13th and the second dated March 24th. These filings graphically depict the problems that faced by coal-fired utilities in recent months due to BNSF's ongoing service issues.

These issues include precariously low stockpiles often dipping below ten days, emergency trucking of coal, and reduced coal-fired generation and its replacement with higher priced generation resources resulting in increased wholesale and retail electric costs.

Minnesota Power specifically has experienced all these problems firsthand. Our stockpiles at three of our three coal-fired plants dipped to dangerously low levels, and I say dangerously very intentionally. Our levels dropped to as low as four days at our largest power plant earlier this year.

We were forced to begin emergency high cost trucking of coal we had in storage in Superior, up the north shore to our second largest plant at Taconite Harbor, and most importantly we were forced to curtail generation both last year and earlier this year and replace it with higher priced purchased power, which in turn has led to over approximately $10 million in additional electric service costs that our customers have to pay when we go to market for power that we could not generate.

These costs have been borne mainly by our large industrial customers. They're customers whose names I think you'll recognize operating globally and competing in international markets. Names like ArcelorMittal, United States Steel, Cliffs Resources, UPM-Kymmene, Blandin, Sappi, Gerdau Ameristeel, NewPage, who I note is here today to talk to you as well.

Other Traffic League members have experienced similar problems. Bob will discuss TMPA's service problems, and three other Traffic League members, Kansas City Power & Light, Wisconsin Public Service, and Western Fuels Association have asked me to briefly describe their current service problems to the Board.

Starting with KCP&L that utility's BNSF-served stations have experienced cycle times in 2014 that are between 27 percent and 39 percent longer than comparable times in 2013. With performance worsening steadily from the fall of 2013, coal inventories at the BNSF-served plants have not been at target levels since July of last year and have decreased precariously over the last seven months.

Actual BNSF deliveries during this period have been as much as 22 percent below nominations. Wisconsin Public Service's Weston Station is served by UP and CN. At the start of December '13, coal inventory had 107 percent of target levels, by year end it had dropped to 72 percent of target levels. It kept falling in 2014 so that by March, WPS had to reduce burn in order to prevent inventory from reaching zero.

Over the same December to March time frame, tons delivered by UP/CN fell short of nominations by more than 375,000 tons and transit times increased from 176 hours to 372 hours.

Lastly, Western Fuel purchases coal transportation for several BNSF-served cooperative utilities. WFA reports that BNSF's current cycle times are up to 50 percent higher than historic averages.

Stockpiles at many plants are extremely depleted. Several of its member companies have had to engage in expensive coal service mitigation measures including emergency coal trucking and generation curtailment, and unless BNSF's service improves soon, even with conservation efforts some of its members may run out of coal this summer.

While the unfortunate and costly results of carrier service failures are well known to utility coal shippers, what is less clear to the Traffic League members is, first, why did these service problems occur? Second, what are the carriers doing to fix them? And most importantly, how long will they last?

We will be listening with great interest to hear the carriers' responses to these three basic questions. The League also requests the Board to take four immediate steps.

First, direct BNSF to publicly submit on a bi-weekly basis the coal service data we identified in our March 24th filing. Second, direct BNSF to publicly submit a specific service recovery plan along with periodic bi-weekly progress reports.

Third, to closely monitor developments and exercise its broad authority as necessary to issue specific remedial service orders. And fourth, to collect interchange dwell times and yard dwell times in Illinois and Wisconsin for UP and CN as well as UP coal train cycle times from the PRB and Colorado to Chicago. The League may supplement the record with additional requests following today's hearing.

Finally, at Minnesota Power we try and approach problems with creativity and optimism. I want to end my remarks on that spirit, with that spirit.

Minnesota Power has had a long relationship with BNSF that dates back to 1968. We were BNSF's first western coal unit train shipper, and I want you to understand we've had a long and mutually beneficial partnership with BNSF that we certainly expect to continue.

In recent years we've worked closely with BNSF to proactively look for ways to address the infrastructure side of these issues. For instance, we're working together in energy-rich and energy-friendly states like North Dakota to support new investments aimed at reducing congestion with new infrastructure. We're also exploring loop track investments and enhancement at our largest power station.

During the recent crisis, we've been in constant communication with BNSF regarding these problems and the impact they have on our operations and our customers.

We want the Board to know that BNSF has made its people available to us from the CEO down whenever we have asked. For example, BNSF's chief marketing officer Steve Bobb, who I understand is speaking to you today as well, traveled to Duluth and spent the better part of an entire day with our largest customers helping explain the current situation.

So while BNSF has listened to us and taken steps this year to address problems, we still have a long way to go. Like all successful long-term relationships, sometimes one partner needs to hear frank feedback from the other. Providing that feedback is my primary purpose for being here today.

Our customers in northern Minnesota depend on Minnesota Power and BNSF for reliable and affordable electric service. It's up to us and this Board to assure that they get their expectations or that their expectations are met.

I thank the Board for the opportunity to participate. I'm happy to answer any questions that will provide additional information. Thank you.

MR. KAHN: Good morning, Chairman Elliott and Vice Chairman Begeman. My name is Bob Kahn, and as David said, I'm the general manager of TMPA. I will say I was stationed up in Minot when I was a JAG in the Air Force for two and a half years, and 71 is nice.

TMPA was established in 1975. It's a nonprofit municipal utility that serves the cities of Bryan, Denton, Garland, and Greenville, Texas. TMPA and its member cities serve a little south of 200,000 meters in Texas.

We now have one generation of assets, that's our baseload coal-fired Gibbons Creek Steam Electric Station located near Iola, Texas, and it has a net generating capacity of 470 megawatts.

We also operate transmission facilities into the ERCOT grid, Electric Reliability Council of Texas, that serve our customers, and all the power we generate goes to those four cities.

We burn approximately 1.57 million tons of Powder River Basin coal a year, and BN delivers all of our coal. We rely on BN. Their performance has significant consequences for us.

Only a year ago, we had a full coal pile with nearly 60 days of inventory at Gibbons Creek. Today we have less than ten days on the ground. In any event, their service began its decline in May of 2013. BNSF regularly struggles to provide locomotives, crews, and rail cars in adequate amounts to move our coal needs.

On two occasions, December 2013 and April 2014, just a few days ago, when inventory levels dropped below ten days, TMPA filed DOE reports declaring fuel supply emergencies. The notice is filed when the utility believes that fuel supply difficulties could impact electric power system adequacy or reliability.

Simply put, our projections show that we're going to run out of coal probably mid-summer, mid-July. The harsh reality is that TMPA will forced to either shut down the plant or significantly curtail its production.

In turn, similar to what David said, our members, you know, could be forced to buy much more expensive power on the grid. It's also possible that BNSF service issues could threaten the availability of electricity across ERCOT through other coal plants in Texas.

As a side note, I am a former CEO

of ERCOT, and I'm keenly aware of the consequences of coal-fired electric generating stations having to curtail generation during the summer months in Texas. That would not be good.

What is most disconcerting is that no resolution of BNSF's problems seem imminent. In fact, in our experience, they say all the right things but fall short on execution. For example, I was at a coal conference that they put on the Dallas area last fall. One executive after another got up there and said they were upset with their performance, they'll do better. In fact, it's gotten worse.

Their cycle time performance dropped by 15 percent in 2013. At the end of 2014 (sic) we were 84,000 tons short of our total nominations. It left us with only 15 days of coal on the ground, and we think it's just going to continue into 2015. We don't see it getting any better.

We're also concerned about the planned construction and maintenance activities that BNSF with the Tower 55 construction project in Fort Worth. Because of that project cycle time is going to increase. It's going to force them to take longer routes coming to us and returning. We're also going to have shorter trains, not as many cars.

To minimize the impact of the Tower 55 project, in December, on the advice of a BNSF executive we requested that BNSF increase our first quarter 2014 deliveries to build up our coal pile. We didn't ask for more coal overall, we just asked that it be moved up into the first quarter so we'd be ready for the summer. Despite its own suggestion, BNSF has failed to deliver on TMPA's request. They delivered approximately 112,000 tons less than our December nomination for January through March, and missed the mark by 66,500 tons in March alone.

In light of the service problems, our member cities have already spent a lot of money to deploy energy conservation methods which preclude Gibbons Creek from running on an economical basis in order to minimize coal burn and build inventory.

But as soon as we enact those coal conservation measures, BNSF basically goes to the person who has a lesser pile than us, and so it really doesn't help us to minimize our coal use. They just run from problem to another.

On the upside, BNSF has communicated well and in recent weeks it has seemed to focus more on the seriousness of our situation including delivering a plan to put four trains in TMPA which is really the bare minimum given BNSF's current performance.

However, with slower cycle times, which as you know is the key, there's no margin for system interruptions. I mean, just last week we had four trains on the way. Two got stuck in Oklahoma. They couldn't find crews, and it took an extra day or two for those two trains to get there.

TMPA has not just pressed BNSF to improve. We've also asked BNSF to consider other remedial measures. We've requested that they grant permission for us to pursue alternative service with UP and place TMPA leased cars in service, but we have not received a written response yet. Instead, they just reassure us that we won't run out of coal. I'm hopeful but not confident.

And I'd just like to conclude by saying we understand the Board has considerable power and discretion to aid shippers when severe service issues arise. As David mentioned, WCTL has several specific requests for the Board with respect to data collections from BNSF. TMPA also urges the Board to consider any other actions it believes will aid all the shippers impacted by BNSF's service crisis.

On behalf of TMPA, its member cities, and WCTL, I thank you for allowing us this opportunity to testify today, and David and I are happy to answer any of your questions.

MR. WISNESS: Good morning, Chairman Elliott, Vice Chairman Begeman, ladies and gentlemen, and thank you for this opportunity to testify at this hearing of the Surface Transportation Board.

My name is Bob Wisness. I'm a farmer from western North Dakota, a father of four grown children, two of whom are involved in our family farm, and I am president of the North Dakota Grain Growers Association.

I also serve on two committees of the National Association of Wheat Growers where I am chairman of the environmental and renewable resources committee. I'm honored to represent all of those interests at this STB meeting as we try to better understand the issues surrounding rail service particularly as they apply to shipping agricultural products in the northern Great Plains.

In order to understand where I'm coming from so to speak, it's important that we learn to appreciate the geography, history, and economics of North Dakota. So here's a condensed view of North Dakota in just a few minutes.

You surely know where North Dakota is, but it needs to be emphasized that our location right in the middle of the North American continent is central to today's discussion.

From my home in rural Watford City in western North Dakota, it is nearly 700 miles to Minneapolis, 700 miles to Denver, and 1,200 miles to Seattle. We have no seaports or navigable rivers, and we have Canada on our northern border. Essentially, we are landlocked geographically and geopolitically.

Yes, I am from Watford City, North Dakota, which is now better known as a Wild

West boomtown in the epicenter of the Bakken oil play. It's become a very interesting place to live and farm during the past few years.

Also geographically it's important to realize that North Dakota isn't just about oil. We are a state dominated geographically and economically by agriculture. In fact, less than 20 percent of our state is in the Bakken oil region, and even in that region agriculture continues to dominate the landscape. Oil gets the headlines while agriculture is not only our bread and butter it is our backbone.

It may seem odd, but North Dakota is also landlocked economically in many ways. We rely heavily on the railroad to move our abundance of agricultural goods, coal, and oil to where they can be used by industry and consumers. In spite of our somewhat isolated location, North Dakota is one of the key drivers of the American economy.

We lead the nation in the production of 14 crops, and we are the number two oil producing state. North Dakota is also a major supplier of coal, electricity, and wind energy. We are America's breadbasket and Saudi Arabia rolled into one great state.

Some historical perspective is important to understand why rail service is so important to North Dakota. In many cases North Dakota was built around the railroad. Indeed, most of the towns that sprang up some 100 years ago were along rail lines, either main lines or the dozens of shorter branch lines.

Rail service was critical to move our agricultural goods to market 100 years ago and it remains that way today. Through the decades, the relationship between railroads and agriculture has had its ups and downs.

I've already described the heyday of the rail service in North Dakota, those early years, but they are long gone. Perhaps the biggest down was the railroad's abandonment of many of the branch lines that served the smaller communities of the state. Branch line abandonment was a contributing factor to the depopulation of our small towns, and the smaller farmer operators had no place to locally market their grain.

Obviously the railroad is an incredibly powerful force in North Dakota. That's why I'm here and that's why these meetings are critical to our farm, our state, and our nation.

Nowadays, North Dakota farmers are facing another challenge from the railroad and it's not caused by a lack of railroad business but rather an excess of business. Everybody wants to ship their products by rail, and obviously the railroad wants to accommodate as many shippers as possible. I cannot blame the railroad for wanting to maximize their profitability, but their choices are putting thousands of North Dakota's farmers in jeopardy. Here are some of the impacts.

Excuse me, I saw a red light?

CHAIRMAN ELLIOTT: Yes, take your time.

MR. WISNESS: How much time did I have? Okay, thank you. I have a lot more to say.

All right, here are the impacts we're seeing on the farms and ranches in North Dakota. Millions of bushels of wheat, barley, corn, and soybeans are essentially unmarketable and stranded on farms as grain trains are running weeks or even months late.

Unfarmed grain inventories are at all-time highs for this time of year and the reason is not too much crop to move, it is that the crop is not being moved. We've had big crops before, but we have never had this poor service from the railroads. On my farm, at least three-fourths of my 2013 production is still in the bins. Typically, I have delivered most of my grain by now.

Number two, cash flow problems are plaguing our farmers simply because we cannot turn our crops into cash. I've been forced to borrow hundreds of thousands of dollars to cover my farm expenses while my grain is undeliverable.

Number three, timeliness is very important in agricultural shipping. Our crops do have a shelf life and that they cannot be stored indefinitely before they're marketed. Significant spoilage and loss does occur when farmers are forced to hold their crops off the market for extended lengths of time.

Number four, crop storage capacity will also be a major issue if the past year's crop is not taken off the farms before the next harvest which is fast approaching. At the current pace of grain movement, it's likely that up to one half of the next crop will end up piled on the ground which will be a major disaster.

Number five, all of this grain has

to get to market somehow and the only means left is by truck. The decades-long degradation of rail service has meant that farmers must often purchase fleets of trucks and hire drivers to find a place to market their grain.

My local grain elevator is seven miles from my farm, and when I can deliver there it saves me many hours and miles on the trucks. Most of the time, however, my local elevator's full and we're forced to haul much longer distances, up to 150 miles one way to move our crops and turn them into cash. Trust me, it didn't used to be this way.

More than 50 percent of the wheat grown in North Dakota is exported. It all has to go on the rail as there is no other choice. Montana's percentage of export is even higher than North Dakota's. If there's not a concerted effort by the railroad to move grain on a much more massive scale and in a timely manner, our reputation as a consistent, reliable exporter of high quality wheat will be damaged. Losing our critical export markets would be devastating to northern farmers and our state's economies.

Number seven, basis rates for Northern Plains grains are currently extremely high due to the tight rail car situation. This has resulted in depressed prices that farmers receive.

Number eight, as of March 29th, 2014, Burlington Northern Sante Fe Railway reported that 46 percent of all cars nationwide, those which were destined for North Dakota locations were at average of 22.8 days late.

Cars with Montana destinations accounted for another 20 percent of all late arrivals on a nationwide basis. In other words, these two states account for two-thirds of all of the late arrivals nationwide. This is simply unacceptable. In any other business this would be called a disaster.

It should be noted that agriculture is not the only industry suffering from BNSF's poor performance but it appears to be the most affected. I can attest to the fact that finding a grain elevator with space for grain in or near the Bakken area has been nearly impossible since last fall.

For North Dakota farmers, the railroad is a lifeline to reach out to markets both foreign and domestic. Unfortunately we've been let down by the railroads before and we're hesitant to accept their promises during these latest challenges.

In the past, farmers have done everything the railroad has asked only to receive poorer service. We need more than promises, we need action. The question is whether agriculture can somehow survive in this new world as the grain trains are forced to fit somewhere on the tracks after the oil, coal, and intermodal shipments pass by.

We know there's limited space on

the tracks, but we must demand that the grain moves first and not last before irreparable damage occurs to the farm economy in the Northern Plain states.

That brings us to today. How do we move forward to solve these problems? In spite of many agricultural leaders' criticisms, the truth is that there are no bigger supporters of the railroads than Northern Plains farmers. We have no other options and we believe that a strong rail system is critical for us as farmers and for the entire country. Strong rail service is in the national interest.

We sincerely hope and trust that the railroads are working to upgrade their systems, and that their promises of better service will soon come to pass. We realize that these improvements will take time to implement but our patience is exhausted. We simply cannot wait several years for the promised improvements as we have crops that must be delivered now.

Let's think ahead a bit and on a larger scale. There are numerous oil shale formations scattered around the United States that will surely be exploited over time. Will that oil also be transported primarily by rail as well? Is that good policy? Will those agricultural regions share the same problems as North Dakota?

It's imperative that America's energy independence be allowed to flourish, but we must not sacrifice our agricultural independence. Let's learn from the problems that North Dakota has experienced and not make the same mistakes.

As a representative for over 20,000 North Dakota wheat and barley growers, it's my duty to demand that the railroads immediately put more grain trains on the tracks to help alleviate this backlog of farm-stored commodities.

Thank you for the opportunity to

give our side of the story, and thank you for extending my time.

CHAIRMAN ELLIOTT: Thank you.

MR. SCHICK: Good morning, Chairman Elliott, Vice Chairman Begeman. I'm Tom Schick. I'm here to speak on behalf of the American Chemistry Council, and we appreciate this opportunity to be here to talk about rail service issues.

The American Chemistry Council represents the leading companies engaged in the business of chemistry. Our members apply the science of chemistry to make innovative products and services that make people's lives better, healthier and safer.

I'd like to underscore the important role that the products manufactured and shipped by the ACC members serve in virtually every aspect of our lives. The nations depends on the chemical industry to produce materials that are necessary for safe drinking water, lifesaving medications, medical devices, a safe and plentiful food supply, energy saving solar panels, and much, much more.

As you know, our members depend on efficient and reliable rail service. Given the relatively short amount of time since this hearing was announced, I've gathered comments from a number of ACC member companies that could not be here to testify today.

My remarks, therefore, reflect the views of a range of companies that ship by rail in our industry. In sharing this information I will address the carriers in alphabetical order.

For BNSF I have six observations from six different companies to relate to you this morning. The first company reports, our cycle times on BNSF have more than doubled since the first of the year. Most of this is the result of BNSF utilizing more circuitous routings to avoid sending traffic across the northern tier line.

So at least they are making an effort to keep traffic moving, even if it does result in much longer cycle times for our private equipment, that is, the rail cars, the shippers' rail cars.

By way of example, says the company, we have seen normal outbound loaded transit times go from the average of ten days to between 20 and 30 days this year, with empty return transit times similar to that for our outbound loaded movements. We have not had to secure additional equipment, but we have had to shift cars between plants because of the longer cycle times.

The second member says, we have big issues with BNSF and with the connecting Short Line. BNSF west of Chicago is a mess and has been since Thanksgiving, although they are adding railroad to ease congestion. The Short Line does not have sufficient capacity for all the business it has.

In terms of metrics, this company

reports that transit times from its origin in the northeastern United States to the destination in the Pacific Northwest was averaging 17.3 days. This is in the period January 1st to April 7 last year, 17.3 days, it's averaging 26.1 days during the same period of 2014. So it went from 17 days to 26 days.

Equipment is a big deal because they're not getting the turns on the cars, meaning the round trips of the loaded cars and the return for reloading takes longer. This is not entirely the fault of BNSF, although if it weren't for the paper barrier we could use Union Pacific to reach that Short Line.

Third report, we've been having considerable difficulty with BNSF recently in the Midwest. One major customer has seen, as a customer of this chemical company, one major customer has seen mean transit time from its plant in the Southeast increase from 12 days to 19 days. That's measured since last

December, the increase.

I spent, I meaning the company person spent the weekend bird dogging a car to a customer in the Midwest that we shipped out of another plant in the South on March 20th. In the scheme of things, says this company, BNSF is not a major carrier for our company but has been a major headache.

Fourth company reports, BNSF handles all of our volume out of a location in Texas. Fortunately we have had very few service issues with BNSF. The majority of our service issues are with CSX.

The fifth comment on BNSF is that BNSF is causing this company significant impacts in the Chicago area. They've had congestion issues since the October-November time frame and continue to fail to deliver empty cars that our company owns so we can load them for customer shipment, and they continue to delay the outbound customer shipments when we are finally able to ship.

This is primarily driven by one of the BNSF yards in Illinois.

The final comment on BNSF is as follows. For inbound chemical shipments to our facilities -- so here the ACC member is the receiver, the consignee -- to our facility in the Pacific Northwest, we've experienced a significant increase in BNSF transit time starting in the fall of 2013.

BNSF originates this traffic in the Midwest and the transit time on this route to the Pacific Northwest increased over 100 percent at peak versus the historical average. This increased transit time can be attributed to 100 percent increase in the dwell time at one BNSF yard and based on BNSF network congestion due to lack of rail capacity.

In 2014, BNSF has responded that their network has not been able to keep up with the substantial crude oil volume increase, and has also told this company that a compressed agricultural harvest is part of the reason.

In addition, BNSF indicated their service was further impacted by the winter season in 2014. Since this company's facility is served only by BNSF the service impact on our chemical facility has been substantial, resulting in a 15 percent reduction in our plant capacity with millions of dollars in lost revenue.

I'm going to turn to the Canadian Pacific comments. I have reports for you from four of our members. The first member says, we have not had any significant issues with the BN, but have experienced many delays with the CP with cars heading to different ports in Canada.

Many cars heading from the Chicago area to Canada have experienced major delays due to the extreme weather we have faced this winter. They are still going through some major congestion issues on CP and it's a major task to get CP to respond to our pleas for help.

Second comment as follows, a very small percentage of our volume moves to CP destinations says this company. Given all the winter weather issues we did see delays in moving cars through the Chicago area, however, it was not a significant issue for this company.

Third company said that it's primarily serviced by CP at a captive plant location and CP has been consistently improving their service since the meetings were held with them back in August.

They've been very responsive to our needs, and they've actually been instrumental in pulling us out of a crisis caused by other railroads experiencing congestion (CSXT). End of that one.

Fourth comment from a member about CP service consists of a number of bullet points. Lack of power resulting in last minute changes to plant service potentially cost one of our business units more than $30,000 per day.

Lack of response from CP's operations department regarding status or reasoning of why cars are not moving. Weather is constantly used as an excuse, says this company, even for lines that have nothing to do with Chicago, for instance, from Calgary to Vancouver.

Next point made by that company is that multiple plant shutdown forms were sent in for their own company and for customer companies because of the cars not moving. All I know is that they had to send in the forms. I don't know about shutdowns.

Another comment from this company is that they've gotten no response from the customer service 1-800 number for CP. They've sensed an ambiguity around the operational responsibility of CP as between the yards and the asset group, and ambiguity around demurrage charges.

Deceiving tariff language. For private cars, the demurrage clock will begin the day following constructive placement. This does not mean 24 hours after constructively placed as we were led to believe, it means the day after. So if a car is placed at 11:58 p.m. on April 7, demurrage is charged three minutes later on April 8th.

So I will now turn to the other railroads. In the course of surveying the members ahead of this hearing, some carriers other than BNSF and CP were mentioned to me.

As you've heard, CSX was mentioned twice in the comments above, but keep in mind also the importance of the interconnections in the rail system. Difficulties on one railroad can spread to and can affect service on other railroads as well.

An ACC member would also like you to know about what it describes as "significant cost issues, customer shutdowns, and routing" on shipments that UP interchanges in the upper Midwest with both Canadian Pacific and Canadian National.

The details for that observation are that the 2014 winter weather has resulted in a bottleneck on UP; that UP has not provided adequate resources, meaning people and equipment, to adequately clear the traffic backlog; that dwell time remains an ongoing issue; and that dwell time is four to five times the normal time.

And that UP service issues in the upper Midwest have increased the company's cost base based upon the need to ship by high cost special trains to avoid plant shutdowns; the addition of new rail cars due to longer transit times; the implementation of high cost rail to truck transfers en route to avoid customers having to be shutdown; subsidizing with truck shipments from suboptimal sourcing points to prevent customer shutdowns; and increased rates to manage traffic over new interchanges to improve transit. Year to date, this one service impact area for this one company is in excess of $1 million of additional cost.

Thank you again for the convening of this important public hearing and for listening to the concerns of the industries that depend on rail service. I'd be glad to try to answer any question you have at the end of the panel.

And in closing I would be remiss if I did not point out that if there were a greater level of competition between railroads in this country, it seems likely the shippers would have choices and the carriers might have additional incentives to provide reliable and consistent service. Thanks.

MR. STADTLER: Good morning, and I thank you for the invitation to testify today. My name is D.J. Stadtler. I'm Amtrak's vice president for operations.

As you know, Amtrak is America's intercity passenger rail provider and we operate the vast majority of the intercity passenger service in America. About 70 percent of our train miles are run on a host railroad, and even our New York to Boston Northeast corridor services run over a 56-mile segment of the Metro-North commuter railroad.

Consequently, all of us who are here today have an interest in a fluid and well-run railroad system. This matters because in addition to Amtrak's statutory right to preference, which was established by Congress, the 2008 Passenger Rail Investment and Improvement Act, or PRIIA, was intended to ensure a high level of host railroad performance.

Section 213 of PRIIA empowers the Surface Transportation Board to investigate any time the on-time performance of an intercity passenger rail train falls below 80 percent for any two consecutive calendar quarters. The failure to meet that service quality standard set by Section 207 of the same act is likewise a reason for the STB to take action.

Immediately after PRIIA passed, there was a gratifying upturn in train performance. I brought some slides with me to display this performance. This first slide will show you the performance has risen and fallen since 2006 when our long distance trains turned in the worst average performance since 1973, an appalling 30 percent, on the left hand side.

Although long distance on-time performance dipped to 63 percent in fiscal year 2011, it's generally been at or above 70 percent on an average annual basis through the end of 2013, which had a correspondingly positive effect on Amtrak's financial performance. Last year in 2013, our financial performance was the best it had been in over 35 years.

There was, however, a legal question about the metrics and standards established by PRIIA Section 207. The U.S. Court of Appeals for the District of Columbia held in July 2013 that the statutory process used to develop these methods and standards was unconstitutional. We saw an immediate drop in on-time performance across the board that was directly attributable to train handling by the host carriers.

If we go to the next slide, that will show you minutes of delay due to freight train interference on a monthly basis for the entire Amtrak system.

These delays are typically delays that are attributable not to weather or infrastructure condition, but simply to conflicting freight movements. We saw an immediate increase in freight delay right after the ruling in July of 2013. This problem is not confined to a single carrier.

The next slide compares the minutes of host-responsible delay for 10,000 train miles for each of the six Class Is. The delay on each has grown substantially over the same period in FY2013.

By the end of the first quarter of fiscal '14, long distance train performance at all of our stations had fallen a total of 11.4 percentage points over the previous year, and by the end of March the decline had grown to a total of 16.2 percentage points bringing us to a system average of just 43.1 percent of trains on time year-to-date.

Individual service averages for the most part banded between the high of 77 percent for our Auto Train to a low of 30.7 percent for the Lake Shore Limited. We did have an outlier on the low end of the bracket, our Empire Builder, which everyone's heard about, arrived on time less than 20 percent of the time in fiscal year 2014 through the end of March.

The next slide you'll see shows the different causes of delays for the Empire Builder on all of the hosts. As you can see on the far left, the freight train interference is the single largest cause by a very wide margin.

The Empire Builder serves an area with very few transportation choices. Passengers depend heavily on Amtrak, but we are not currently providing them with the service they deserve.

In the first quarter of 2014, nearly 100,000 Empire Builder passengers arrived late at their destinations. We've seen rates of delay measured in terms of minutes of delay per 10,000 train miles rise dramatically in 2014.

Freight train interference rates have nearly tripled, and this indicates that not only are there more delays but that these delays are of longer duration. In response, our ridership and our ticket revenues have fallen by 15 percent year over year to date.

In coordination with the BNSF to support recovery efforts, Amtrak's added an extra set of equipment to the pool used to provide the Empire Builder service and we've temporarily added three hours to the schedule.

While I am cautiously optimistic about our ability to jointly address the issues that the Empire Builder confronts with our host railroads, BNSF and Canadian Pacific, I do want to close my statements by returning to the larger issue of systemic delay growth.

Amtrak services nationwide are experiencing growing levels of delay on host railroads. If this is not addressed it will translate into significant impacts to our service, to our passengers, and to our bottom line.

We desperately want to avoid that and we prefer to address and fix this system-wide problem by working with our host railroad partners. We do, however, have an obligation to provide the traveling public with the level of service mandated by the statute and we therefore believe that the STB could significantly assist us by monitoring the statistics that we publish every month and asking the freight carriers to report periodically to this Board on the handling of Amtrak trains.

We believe this would help us to ensure that the public interest in a safe, efficient, and reliable intercity passenger rail service is safeguarded in the years to come. Again, I appreciate the opportunity to speak today and I'm happy to answer any questions.

CHAIRMAN ELLIOTT: Thank you.

VICE CHAIRMAN BEGEMAN: Thank you all very much. I know you want to hear what the railroads are going to say in response to you, and we all do; they'll have their chance in just a bit.

First of all, Mr. Wisness, thank you very much for coming to Washington to tell us your situation. I am a farmer's daughter, raised in South Dakota.

I know the difficulty you face, probably the sleepless nights you have just wondering if you're going to have a crop each year based on the weather. You get to the point now, you've had this great crop, and you can't move it.

I'm curious. You mentioned the local elevator is full, and the elevator about 150 miles away probably growing full. To what extent, or for how long can grain stay on the ground before it rots? I know it rots fairly quickly, but at what risk of losing your production do you and your fellow farmers face at this point?

MR. WISNESS: Thank you for the question. We had corn in a pile that we just got picked up off the ground last week. It's imperative to get it off the ground before the weather warms up. It was still, it kept well. It was very cold grain when we harvested it so it kept well over the winter in a pile.

But now it's crunch time. It had

to be picked up, and fortunately we had created enough bin room over the winter months to move that to the pile. We did not get that grain moved to an elevator, it was to the pile, or to the bin, excuse me.

VICE CHAIRMAN BEGEMAN: The bin is on the farm, right?

MR. WISNESS: Right, on-farm. On-farm storage. So, and, you know, how well grain keeps in a pile is dependent upon a lot of factors. A lot of the corn especially that was harvested last year was very wet. It came off the fields very wet and essentially could not be piled. It's a good and a bad thing. You have a great crop and you can't take advantage of it.

(Off the record comments)

MR. WISNESS: So anyway, to answer your question, I mean it's a lot of variability. Once we can get grain in the bins, get it on air, get it dried, it keeps pretty well. But of course we definitely have to move it before the next harvest.

VICE CHAIRMAN BEGEMAN: And have you had the opportunity to talk with railroad officials or employees, to communicate with them directly? I know some of the other folks have mentioned they've had some good conversations, but I also know it's hard when you're calling from the farm. Maybe you don't even know who to call. But have you had communications, or could we help establish communications between you?

MR. WISNESS: They're well aware of it.

VICE CHAIRMAN BEGEMAN: I realize that. I just meant -- I know that they're aware of it.

MR. WISNESS: Yes, I've talked with our ombudsman in North Dakota and also been to other meetings with BN to communicate. And then the press, the ag press has been all over the story in our area too, so yes.

VICE CHAIRMAN BEGEMAN: And if I

could ask a question regarding some of the coal testimony. I'm curious to know, from my fairly short time on the Board, I've read a lot about how coal usage is down partly because of EPA regs or fear of future regs, and I guess because of natural gas prices it suddenly is getting popular again.

But, at what point were you seeking to really increase your usage of coal? Railroads don't switch operations quickly, so I'm just trying to understand, was this a year ago or was it in January or December, when it's been so cold?

MR. MCMILLAN: Sure. Chair Elliott, Vice Chair Begeman, thanks for the question. I won't speak for the whole League but I will speak for Minnesota Power. Our coal use is pretty stable. We're transforming our fleet over, you know, several decades, and most of our coal use is at one station, the one I talked about, and that is a baseload power station that has run at that level for the last ten years and will for the next 20 if we complete the retrofits on its grubbers and stuff that we're working on.

VICE CHAIRMAN BEGEMAN: So for you, there's no surprise for you.

MR. MCMILLAN: There's no surprise, and gas prices do not impact our burn. We're very industrial, load driven, so that's high load factor around the year and we don't move that plant much at all unless we have to.

VICE CHAIRMAN BEGEMAN: And again because it's going to be a long day, but did you want to comment on that?

MR. KAHN: Yes, thanks. Yes, our usage of coal has gone up as gas prices go up. We're more competitive. Our cities are more competitive in the market. When gas prices are down, our usage is off. Last year it was up 18 percent and this year it's probably going to be up over 30 percent.

VICE CHAIRMAN BEGEMAN: If I could

just ask a quick question on the Amtrak charts. One of the charts talked about host-responsible delay. Is that according to Amtrak, or is it agreed between Amtrak and the host railroad?

I know that between the railroads and Amtrak, folks do different sorts of reporting. I'm just curious, is this delay your view or is it the consensus view, in the weekly/monthly reporting?

MR. STADTLER: Thank you for that. I would say that it's Amtrak data that comes from the conductors that are on the train. So when a train is delayed they determine whether it was from excess baggage movement or passenger delay or if there's a freight train in front of them.

We currently have a paper-based system which is probably state-of-the-art for the 1980s and we're working to improve that. That goes to the different dispatchers at the different host railroads, and if they have differences in data we reconcile that.

So for the most part, Amtrak and the host agree on that data. I think you'll probably hear, if you ask the hosts, some have a much higher confidence in the data than others.

Over the course of this summer we're implementing an electronic delay reporting system that will make that process more seamless, and I think the data will be more joint data than Amtrak data at that point.

CHAIRMAN ELLIOTT: Just a couple broad questions mainly for the panel. You've mentioned communications. Are any of you, reaching a point where, I know you're frustrated, but are you frustrated by communications, like are there no communications going on, or do you feel like at least your side of the story is being heard? You may not be ecstatic about the result, but I'm just wondering if at least there's some conversation going on.

MR. KAHN: Thanks for the question. I think we're having good communication. The problem is what we hear is, trust us, we're not going to let you run out of coal. And we just are not confident that that's going to happen.

CHAIRMAN ELLIOTT: Anybody else with specific problems? I'm more interested in hearing if there is a communication issue, because that is something that we can immediately resolve if there are any.

MR. WISNESS: Yes, I have no problems with the communications level. It's the ombudsman in North Dakota has been excellent in communicating in any way that's necessary as well we've been invited to numerous meetings with BNSF particularly. It's not a communications problem, I don't believe, it's a performance problem.

MR. SCHICK: My information is secondhand, not firsthand, and I think it kind of ranged from, I know some of the companies have gotten a lot of attention from the carriers in these situations, others have expressed, as I read, frustration with not even being able to get customer service to give them some feedback.

So there's some range there. I don't think it's consistent. And I'm not getting to the result, I'm just talking about the communications aspect, Mr. Chairman.

CHAIRMAN ELLIOTT: Sure. I guess this is probably more towards coal and the chemical shippers. I don't know if it is, so please jump in if it's applicable to you, but do you see any other opportunities out there as far as service is concerned where another railroad that's not having as significant congestion issues could help out, either taking the traffic or allowing the other carrier to run over their tracks?

We do have some resources here at the Board that we're able to provide for shippers in certain situations, and obviously it would make it easier if the railroads would cooperate with those requests.

But do you see any of those opportunities out there or is any of that taking place as we speak?

MR. KAHN: We sent a letter to BNSF on March 11th asking questions about letting us use UP or to lease cars and we have not received a written response yet. They, like I said I don't want to keep droning on, but they keep saying, don't worry, we're not going to let you run out of coal.

CHAIRMAN ELLIOTT: And that's specifically with respect to TMPA, or is it

MR. KAHN: Oh, I'm sorry. Yes, TMPA.

CHAIRMAN ELLIOTT: Yes. I'm sorry. That's our short way of referring

MR. KAHN: Yes, okay. Never heard it called Tempa.

CHAIRMAN ELLIOTT: Right. It's

not Tampa. Okay, no, that's helpful. I just want to urge everyone also, I know this has been mentioned in my opening remarks, but we do have a very good Rail Customer and Public Assistance program.

And when you do run into situations where there may be a possibility of bringing the two of you together and possibly needing a mediator where you're running into a roadblock, I do urge you to use that resource if need be.

MR. KAHN: And I have been talking to them.

CHAIRMAN ELLIOTT: Great. Great.

MR. SCHICK: Our members are well aware of the service. I know some of them have made use of that service on back to the question about alternative ways of moving rail traffic.

In the comments that I had summarized for you here today, I think they ranged from a specific mention of a captive plant which would make it probably pretty difficult to get an alternative service, you'd need some kind of directed service order to get in there, all the way to the other end of the line where one of the companies mentioned that the destination point was served by, I think it was the destination point, was served by Short Line.

And they can't use the other Class I road to get to the Short Line because there's a paper barrier, or there are other words for paper barriers, as we know, but there's a paper barrier.

So BN's got the traffic even though the other railroad could interchange with the Short Line and get to the customers. So I guess it covers, as it often does, it covers the whole range of possibilities.

CHAIRMAN ELLIOTT: Sure.

MR. MCMILLAN: Chair Elliott?

CHAIRMAN ELLIOTT: Yes.

MR. MCMILLAN: With both your

questions specific to Minnesota Power, I referenced this in my testimony but it's significant enough to say it again, communication has been superb with BNSF. They've put their top decision makers on the spot with us when we've needed to. Performance as you've heard isn't there, but communication's excellent.

Your second question, and I'll answer on behalf of the League, alternatives are always good and are very, very hard to exercise as currently out there, but if those opportunities were there for switching I know a lot of League members would look for opportunities to do that especially when times are dire like they are here. Thank you.

CHAIRMAN ELLIOTT: Thank you.

Mr. Wisness, I think you mainly referred to BNSF in your comments. Is that correct?

MR. WISNESS: Well, they are the primary carrier in our area, so yes. But the delays are coming from basically all of the other lines too. BNSF, however, is the dominant one.

CHAIRMAN ELLIOTT: Okay. I just wanted to make sure I knew what railroad you were referring to in your comments.

MR. WISNESS: Yes, I could mention the others as well. I mean, it's kind of equal footing as far as I'm concerned. As I mentioned in my comments, you know, a lot of times when we have to make these extended hauls of grain we will go to, you know, an elevator on another line because they happen to have had a train that has run.

And so, I mean we use all of the rail lines, and basically we have to deliver wherever there's an opening. But it's not limited to just BNSF.

CHAIRMAN ELLIOTT: And last question for the shipper group. Somebody mentioned a very quick demurrage charge; have any of the other shippers here, I suppose this is more applicable to the grain shippers, suffered consequences as a result of the deterioration in service, penalties to your customers or whoever you're shipping to as a result of this?

MR. WISNESS: I would have to defer that answer to somebody more in tune with --

CHAIRMAN ELLIOTT: Okay.

MR. WISNESS: I'm not aware of that.

CHAIRMAN ELLIOTT: Okay, thank you.

MR. WISNESS: Thank you.

CHAIRMAN ELLIOTT: And just to Amtrak, shippers can rest for a little while. I did see this last chart with respect to performance, and I don't think I've seen it exactly put this way and thank you for that, and it did cause some alarm based on the date of the decision versus the downturn in the metrics.

I also noted that some of it also coincides with the service crisis or the service issues that we're having at the present time. Do you see that as a combination of factors or do you correlate it just with one or the other?

MR. STADTLER: No, I think if you're looking at the last chart as part of the performance degradation over the December to February, it's got to be weather. I mean, weather issues on our side and weather issues on the freight side.

So not all of it is freight train interference but a big portion of it is. It'll be good for us to watch as it's 71 in Minot how that goes up, because we have it code by code what's freight train interference and what is weather. We're hopeful that we're able to minimize the delays as we move forward.

CHAIRMAN ELLIOTT: So I take it you're hoping to see that as the weather improves, that that line will go back upwards would be the hope.

MR. STADTLER: Yes, that's the hope. But if you look at the other chart, the one before, you can see that on the far left freight train interference is really --

CHAIRMAN ELLIOTT: A significant number. And are you content? I mean, you mentioned the preference, the statutory preference requirement. Are you content that that is being met as this number has gone down, or do you relate that large number that you just pointed to on the second to the last chart with respect to not abiding by the preference requirement?

MR. STADTLER: I would say it's the latter. I would say that not abiding by preference --

CHAIRMAN ELLIOTT: Thank you.

MR. STADTLER: -- is the cause for the delay.

VICE CHAIRMAN BEGEMAN: May I ask

just one last question of Mr. Wisness? Where is your grain going? Is it going west to the ports? I've heard from many that the Chicago area is a significant cause for all of this delay, and if you're going east they're not moving your grain. I'm just curious, where is your grain going, if it goes anywhere?

MR. WISNESS: Well, for my area in the western part of the state, virtually everything goes west. Now there was a significant increase, I think, that Burlington Northern has documented of soybean shipments that went out to the west coast over the winter, so that was a demand feature that they experienced. But generally, you know, the western half at least of North Dakota grain moves west.

Virtually all of the wheat move west, and the current soybeans tends to move either south or east. And certainly if someone has a better handle on that I'd encourage them to speak on it later, but from my point of view that's how it appears.

CHAIRMAN ELLIOTT: Okay, I think, first of all, thank you very much for appearing today. It's been very helpful. And thank you for making the trip here, and I know it's not been easy with the cherry blossoms going. At least you didn't have to drive through it this morning. So you are now excused and we'll bring up the next panel. Thank you very much.

We'd also like the secretary of agriculture to come up with the next panel, and why don't you sit down at this end? Yes, I think so. We'll have him lead off.

MR. WISNESS: Do you want copies of our presentations?

CHAIRMAN ELLIOTT: Yes, what we'd like you to do is provide two copies of any type of PowerPoint. You didn't use a PowerPoint so I think you're okay. Actually, you don't need to provide it.

Why don't we begin with the third

panel, and we will have the secretary begin the testimony.

SECRETARY LENTSCH: Well, good morning. My name is Lucas Lentsch. I serve as secretary of agriculture for South Dakota.

And yesterday I had the great opportunity of finding myself in the midst of transportation delays but they were of the aerial nature. A cancelled flight, a broken connection, and so I was looking for the aerial transportation board this morning upon my arrival.

But no, I am very thankful to be here with you today, and it's an honor to come in front of you and on behalf of the state of South Dakota and read into record, first off, our letter from our governor, Dennis Daugaard.

"Chairman Elliott, Vice Chairman Begeman, members of the Surface Transportation Board, thank you for your attention to the dire railroad service challenges facing farmers, grain elevators, ethanol plants, and other shippers throughout the Midwest.

"Agriculture is South Dakota's number one industry, generating over $21 billion in economic activity each year. As governor of South Dakota, I appreciate the opportunity to express my concern for the backlog of rail shipments.

"South Dakota's three largest grain commodities are corn, soybeans, and wheat. Our farmers grew excellent crops in 2013, producing 808 million bushels of corn, a new record; 183 million bushels of soybeans; and 77 million bushels of wheat. A total of more than a billion bushels of grain, yet according to the National Ag Statistic Service, half of that production, a little over 500 million, 506 million bushels remains in storage.

"The lack of rail transportation for these agricultural commodities has already led to some spoilage of grain stored on the ground. Some elevators can no longer accept grain from local farmers because they have no storage capacity at their facilities. And when South Dakota farmers cannot sell their grain, entire communities dependent upon the economic activity of agriculture suffer.

"The shortage of rail cars is so acute that our storage facilities may not have enough space to accommodate the wheat harvest this summer and the corn and soybean harvest this fall.

"I've received numerous reports of grain shippers requiring thousands of rail cars to move the grain currently in storage. Three grain elevators in central South Dakota are short a total of almost 4,000 rail cars. Other grain shippers report shortages of an additional 11,000 rail cars.

"And the problem extends beyond grain transportation. A number of farmer-owned ethanol plants in South Dakota have had to shut down for three to four days or longer because the lack of rail service has caused their production to outpace their storage capacity.

"With more than 90 percent of our ethanol shipped by rail, the lack of rail service has had a considerable negative impact on this industry. Certainly the impact of severe weather and ongoing construction efforts combined with the large grain harvest has caused challenges for the rail system.

"With spring's arrival, however, it is imperative that reliable rail service be restored. Our railroad partners need to address the inconsistent delivery of cars. Locomotives and crews must be allocated to expedite shipping service to underserved areas. And investments in track improvements should be better coordinated to alleviate the tremendous backlog that is currently taxing the system.

"I appreciate the acknowledgment of this problem and the efforts underway to alleviate it. I encourage our railroad partners to employ a wide variety of solutions from increasing hours of service for crew members to adding additional cars and locomotives to the lines to eliminate the rail car shortage before the 2014 harvest begins.

"Farmers, biofuel producers, and other small businesses in South Dakota depend upon reliable rail service to operate their businesses efficiently and profitably. Prolonged disruptions to rail shipping will escalate into very real economic harm, and I stand by to assist in the collective effort to prevent this from happening.

"Thank you for your consideration and assistance. Sincerely, Dennis Daugaard, Governor of South Dakota."

As secretary of agriculture for South Dakota, I thank you for your willingness and leadership to have this hearing. South Dakota agriculture producers and shippers are in need of solutions.

As a state we pride ourselves in

independence and a pioneering spirit. However, we recognize the vital dependence we have on effective and reliable rail service. Today it is imperative that I deliver a message respectful of our rail partners' unique and integral relationship with our state. Without their commitment, South Dakota becomes the world's warehouse for grain, literally.

By location alone, South Dakota is one of the farthest points away from grain markets. Historically, this has placed our commodities at a disadvantage through high transportation costs. Rail is our only option.

A few highlights on how we arrived here today. The world demand for grain commodities combined with increased dry milling for our ethanol in the state gave a signal to our farmers to increase production. Geographically, we are in a good position to feed the world demand for grain via rail transport. Over the past few years grain companies recognized the fact that grain production was about to explode in South Dakota, and capital investments in grain handling facilities, mainly shuttle loaders, has created significant investment and totaling hundreds of millions of dollars.

Railroads handled this increase in grain production with their current infrastructure until the increase in demands have overloaded their rail infrastructure itself.

Farmers spent the capital to increase production, grain companies have spent the capital to handle this new production, and now it is up to the railroads to spend the capital to get this production to export.

Grain production in South Dakota is geographically stranded. We have two end users for corn, predominately livestock and the ethanol grind. All excess bushels of grain raised have to be put on a train and railed out to an out-of-state end user.

But in summary, meeting this demand for grain to feed the world is a three-legged stool.

The first leg, the farmer responded to market signals for increased production; and the second leg, grain companies recognized the need to build up existing grain handling facilities to handle this new production; and the third leg, the railroad takes this production to export market, and now is the time to build up the rail infrastructure to handle this increased production. We are all partners together in the ag production, and if one leg collapses the whole stool tips over.

When America asked for energy independence we turned to our farmers for help and they answered. In South Dakota with over a billion bushels of grain produced last year and over a billion gallons of ethanol created, we need our transportation partners.

We understand there are a number of factors that make this a complicated issue. As Governor Daugaard stated, we want to be an active partner to assist in providing solutions.

And quickly, it is worth mentioning that South Dakota has shown a very real commitment to investing in rail. We believe so strongly in the importance of rail service especially for agriculture that we've been willing to put our money where our mouth is. The state has invested nearly $30 million to improve the state-owned line from Mitchell to Chamberlain.

So on behalf of our state's ag producers, thank you for listening and assisting in supporting a path forward to reliable and consistent rail service. Thank you.

CHAIRMAN ELLIOTT: Thank you.

Would you like to go then?

MR. HANDCOCK: Thank you, Chairman Elliott and Vice Chairman Begeman. My name is Milt Handcock. I'm the general manager of Midwest Cooperatives, a CHS Incorporated company.

We are a seven-location, regional cooperative and serving central and western South Dakota. We are served by both the CP and the BN rail. We load up to 75-car units for the CP and 110-car units for the BN. I'm a member of the South Dakota Association of Co-ops and the South Dakota Grain and Feed Association also.

At elevators served by the CP in my area seem to be getting farther behind. In January, facilities were up to 875 cars behind. February, 1,500 cars. March, 2,200 cars. April, 2,300 cars. The oldest want date as of April 7th that I know of is January 15.

BN, 26-car to 210-car units have been spotted up to two months late. Other concerns have been late penalties and rolling fees, contract penalties. There have been numerous reports from central South Dakota of fees in excess of $150,000 imposed on elevators for late penalties in individual grain contracts.

The cost of getting bought in on a spring wheat train can be as high as $120,000 on a 25-car unit. That would be $1.50 a bushel. Numerous grain contracts were bought in during the months of January, February, and March as evidenced by the high spot market prices at the end of each month at times exceeding $5 over the Minneapolis market delivered to Chicago.

Late cars are also causing issues with our bird food commodity buyers. Most of our bird food millet and sunflowers are sold as single cars, not unit trains. Single cars are extremely challenged as shippers are using all cars to fill unit train orders.

We are up against some major

service issues for spring wheat planting as well. When contract plant food product that is to arrive on rail is late, we are forced to buy in spot trucks on the open market to serve our customers.

This leaves us in a long position and vulnerable to declining market values with no way to hedge our risk. If it wasn't for the snowstorm this past week, we'd be in the position right now where we'd be completely out of fertilizer in our area.

The slow fall of the Mississippi is only going to exacerbate the situation. Barges bringing up fertilizer and moving grain down will be slow, which will put more pressure on the rail. I can't see how the pace can quicken with the grain that needs to be moved.

Producers ultimately suffer. Current customers of ours are hauling commodities to whoever gets the next train. This could mean that producers will haul up to

300 miles round trip.

This creates the situation where producers cannot contract their grain causing them extreme market risk. Example, if we use the 2,300 cars that I referenced earlier, our local producers could have conceivably lost close to $14 million just in my area.

This is how I calculate the number. Average basis level on 15 protein spring wheat during the January, February and March was $3.33 over Minneapolis market delivered to Chicago.

The basis today is $1.60 over delivered to Chicago. The difference is $1.73 a bushel. Twenty-three hundred cars at 3,500 bushels per car calculates to 8,050,000 bushels. That times $1.73 equals $13.9 million. I'd venture to say that number would be much higher as the 2,300 cars I referenced was just at one location.

Lack of rail services force producers to carry inventory longer, putting stress on their finances for spring needs, and as temperatures warm there's a real threat of grain going out of condition in the farmers' bins. This is also evident with the many ground piles at South Dakota elevators.

On a final note, earlier this week CP advised U.S. shippers that they would not fill any orders if the shipper intended to build a shipment over the Chicago gateway. They would only fill orders to alternative markets.

This is being dictated regardless of the shippers' commitments or contracts which are already several months late. In South Dakota I would venture to guess that 80 percent of our wheat on any given year moves over Chicago destined for U.S. flour mills.

I want to conclude today with expressing my gratitude to you, the members of the STB, and for the time to speak today. As I see it, forecasting rail demand for the ag industry in the future will be at a high premium.

Ag must be seen as a priority. Rural America and the agriculture industry cannot afford to repeat this. Thank you, and I'll stand by for questions.

CHAIRMAN ELLIOTT: Mr. Whiteside?

MR. WHITESIDE: Good morning, Mr. Chairman, Vice Chair Ann Begeman. I want to talk this morning about and kind of complement what everyone else has been doing.

But the real issue here is that we're very happy that the Board has called the hearing, and we've been working very closely with your staffs, with Lucy Marvin and Tom Brugman, and all of them. But I want to kind of cover a little bit about some of the issues that we've heard.

The effects of the service meltdown continue to focus on the Burlington Northern and the CP, but we're starting to see it in the rest of the big four.

It's important for the rail

shippers here to be present at the hearing, but testifying at an STB hearing was difficult for a lot of grain shippers for fear of retaliation. It isn't because of the Cherry Blossom Festival that is the problem. Here, the reality is what we deal with every day.

Rail shippers must compete in their marketplace. Most rail dependent shippers large and small cannot risk alienating a railroad that services their facility no matter how bad the service might get.

This Board may not comprehend the reality of this market, but it's one that we live in every day. It isn't a matter of being brave, it's a matter of trying to survive in a competitive market. At times I get the feeling that the Board personnel does not take the danger of railroad retaliation as a reality.

I compliment all the shippers that did show, and the breadth of shippers is impressive. Personally we've held phone calls and phone conferences and meetings in the Northern Plains together with the STB Office of Public Assistance, Governmental Affairs, and Compliance to assist them by providing the information directly from the shippers, most of which who want to remain anonymous about the effects of the service meltdown in their businesses.

We've conducted phone surveys hosted by myself and conversations reviews with multiple groups of grain shippers from multiple states. These conversations have been coordinated with the North Dakota Grain Dealers Association and Steve Strege, and many Montana growers, grain dealers, the Montana state government, Montana Wheat & Barley Committee, the Montana Department of Agriculture, and the growers and grain dealers in South Dakota.

Additionally, we've had interviews and interviewed a number of ARC members, and those shippers include shippers of coal, agricultural commodities and manufactured goods. And lastly, we've been working with the STB Office of Public Assistance to clarify and provide factual predicate about the service meltdown.

So what I want to do is I want to survey or summarize with verbatim quotes from many of these shippers that participated in the conferences. A continuing theme in the conferences was how do we stay in business with these service disruptions that we're having to pay for?

Two main topics, the continuing worsening and lengthening of the rail service crisis, and the BNSF, what we call the 48-car marriage rules and its effect on smaller, non-shuttle elevators in Montana and North Dakota.

The purpose of the conference calls was to educate the farmers and the shippers including the staff at the OPAGAC and the STB. Elevators expressed that local BNSF personnel operating in oilfield areas have stated that servicing grain traffic, which by the way has been moving about 100 years, is annoying. Is annoying now.

Several elevators talk about the real fear of railroad retaliation if they or their company talk to regulators. Fact, many local elevators are muzzled by their parent or financing elevator companies from appearing or testifying.

This doesn't mean that they're not terribly interested. It doesn't mean they're not suffering. Many elevator operators are showing 60, 90 days behind on getting cars. One South Dakota shuttle elevator, as they talked about, put the number at over 2,000 cars behind last week.

Oil shipments have taken away capacity and are being prioritized over grain. Quote, loads of wheat trains are just sitting there. End of quote. Some grain shippers talked about late deliveries of empty grain trains to the elevators, a slow pickup of the loaded cars from the elevators.

(Off the record comments)

MR. WHITESIDE: The delay in local yards with shipments of loaded grains, quote, loads of wheat trains are just sitting there. Quote, working more and more with durum and peas, less with wheat due to struggling of getting cars.

Quote, BN does not seem to be prioritizing shipments of non-oil products. Another quote, farmers are paying for this, was a comment heard throughout the conference calls from the farm producers. Another quote, pea and lentil cars delivered the week of April 7th in northeast Montana were cars that were ordered to be delivered in January 1st.

The next quote was, the shuttle train spotting seems to be easing, while less-than-shuttle cars are falling farther and farther behind. Next quote was, we sense favoritism. The delivery of sand and gravel gets access within nine to 15 days, but we're 30 days on grain and now we're up to 90 days out and counting.

I won't cover the basis points that the other guys have, but it's the same. Less-than-shuttle rates have taken us out of the business of handling wheat. Quote, as shuttle cars are becoming available the less-than-shuttles will not be available.

Quote, increasing grain, the delays for grain struggling in Montana, North Dakota, and Minnesota, trying to be the squeaky wheel, but not a big shipper, thus where we can we're moving to truck and changing the business practices which affects our bottom line. In most cases we can't do that.

From a specialty grain elevator, quote, markets to Europe, three weeks now to Chicago, missing contracts with the breeders in Europe, can't continue to operate and stay in business doing this. Quote, our plea to the STB, we need more cars.

One of the major grain companies said we're backed up for months due to lack of trains falling back on the backs of the farmers. From pea and lentil shippers, quote, shipments are being delayed so much, the 30-day phyto-sanitary certificates issued for the trip to PNW are running out before the shipments can make Portland. So they have to have them reissued.

The BNSF problems seem to be self-imposed. Insufficient manpower, not enough rail cars, not enough locomotives, Bakken oil shipments have increased by 3,000 percent since 2005 and six fold since 2011, end of quote. In North Dakota, CP service may be, quote, worse than the BN. How long will these service delays go on?

Let me change subjects. Montana lumber shippers are being told in the summer of 2013 they should expect delays for the next three to five years as BN repairs and increases capacity along the BN Hi-Line. And the Hi-Line is old GN line.

In August 2013, BN blamed the service on rail construction and upgrades. In September, as the service continued to escalate, BN told the STB that they did not see too many problems in handling this year's business.

In October, as service delays continued to escalate, BN stated that the wheat harvest, which comes every year by the way, was straining the system. In November, as the service issues continued to escalate, BN started to talk about service issues caused by locomotive/power issues and also publicly stating they were gearing up to move a million barrels a day of Bakken oil.

In November and December as service continued, BN, blaming a greater than normal corn crop, stated that service issues may continue until late spring. In January, as service continued to escalate, service issues, BN blamed cold weather.

In March, as the service issues continued to escalate, BN said that the service disruptions will continue through 2014.

Analysis of export coal and domestic oil movements are outlined in the Heavy Traffic Still Ahead study, which was testified to by Montana Farmers Union and they submitted that testimony in this proceeding so I won't go through that.

The 48-car marriage rule. The BN issued a rule in August of 2013 which said that the small elevators, 48-55s, must go out and find another one. They've got to go to their competitors to marry up with that shipment. The alternative is that they couldn't use the 48-55 car rates anymore.

This effect arbitrarily cut off the ability of small elevators to utilize 48-55 car rates and requires them to coordinate with their long-time competitors to ship to the same locations at the same time.

What I've done just real quick is done -- maybe this will work. Okay, rail rates. Rail rates are the highest they've ever been. So what I've got here, and I'm going to be filing all these comments, but this is the 55-car rate.

If we look at the shuttle rates, same problem. We've got these for hundreds of stations. If we look in there, there's on-basis. I'll just leave it there. We've also got values in talking about the rate levels all over the West.

Coal companies. BN's dictating to coal companies, and you've already heard this, inventory, how much they can keep in generating stations, unless your numbers are in -- this was a quote. Unless your numbers are in single digit days, don't bother ordering more trains. And they're talking about their inventory piles.

Coal shippers continue to see the

rail service meltdown negatively affecting their operations. Many power plants are faced with trying to save their stockpiles for the upcoming heavy power usage months.

A lot of people don't realize that the heavy power usage months are the summer, not the winter, and especially up in the Northern Plains they don't understand that.

Ethanol companies. Conversations with South Dakota ethanol companies show that several ethanol producers are days away from closing or are already shut down due to lack of transportation of the ethanol that they produce. Most of them have no more than ten days worth of production that they can store on site.

The Canadian situation, and this does affect what's going on here. As of March 25th, Canadian railroads were 70,000 cars behind. And there were 39 vessels waiting for grain on the West Coast, 28 in Vancouver and 11 at Prince Rupert.

Canadian wheat farmers had a better than expected wheat harvest. The real possibility is that the 2013-14 crop will not get moved in large quantity by the time the 2014-15 crop gets there. That's very disconcerting to the wheat farmers, and carryover estimates may run as high as 28 million tons.

Shipper issues up in Canada, falling grain prices, widening basis, creating cash flow crunch, driving spreads apart, storage bins are already full. Grain company issues in the country are a widening basis, payment of vessel demurrage on late deliveries, and paying contract extension costs and lost opportunities.

Canadian wheat producers are starting to move grain now down south onto the Hi-Line. That creates more problems on top of what we've already got. CP head, Hunter Harrison, confirmed what the shippers have long feared. The railroads view grain and coal as something they can move now or later.

Speaking to the Wall Street audience on March 12th, 2014, Harrison said bulk shipments including grain were modestly affected by the severe wet winter weather, but his railway did well moving container traffic.

Quote, because that's the one commodity we're sensitive to, quote, if you miss you miss. It's not like grain or coal, where if you're a little bit late you're still going to haul it away. It's still going to be there. If the intermodal train trailer comes in Friday night and you're not able to handle it, it probably won't be going there on Monday. This is one of the concerns in the grain community. It's still going to be there. We're going to have some rotting problems, but the grain traffic's still going to be there.

So summary, on March 21st BNSF was 16,000 cars behind, 23 days. The states of the greatest backlog are North Dakota, Montana, South Dakota, and Minnesota, areas where the BN has had the greatest market power to dominate traffic.

Outlook, it's probably too early to tell, but USDA is already saying in their statement in this proceeding that a lot of the 2013-14 crop won't be moved. It will still be in the bin by the time the 2015 crop comes on board.

Estimates of new PNW traffic for export coal and domestic oil may add as many as 116 million to 160 million tons of freight into the Pacific Northwest over the next five to ten years.

Now to put all that in perspective, if we take all of the grain that moves into the PNW we're talking about 40 million tons. So they're talking somewhere in the hundred and -- and Matt Rose has already said it's between 50 and 100 million that they're going to be increasing there.

So the growth in traffic and

associated necessary rail expense will lead to continuing issues for maybe even the next decade.

Shippers need to be treated fairly. This is our request. Captive and non-captive. Railroads are not like private companies. Rather, they are federally granted franchises that are greatly affected with the public interest and railroads are required to serve all customers fairly with statutory common carrier obligation.

We need the STB to issue service orders to ensure fairness in the allocation of cars and locomotive power throughout the system. We need to have transparency in this process, and above all, the shippers, and you've heard it today, need a Department of Straight Answers at the railroads. Yes, we're talking to them. No, we're not getting anywhere.

Consideration should be given to opening up constricted systems to increased access by other rail carriers to provide power and cars to the move the product. We respectfully request the STB keep this record open. And then I'll affirm what Tom Schick said at the ACC regarding the comments about increased competition. Thank you.

CHAIRMAN ELLIOTT: Thank you.

Go ahead, Mr. Peterson.

MR. PETERSON: Good morning, Chairman Elliott, Vice Chairman Begeman. On behalf of the American Soybean Association, we appreciate the Surface Transportation Board holding this public hearing on rail service issues and providing the opportunity for us to share with you the impacts being experienced by soybean farmers.

My name is Lance Peterson. I'm a soybean farmer from the western part of Minnesota in a town called Underwood. I'm a member of the board of directors of the American Soybean Growers Association.

ASA is a national trade

association that represents our nation's nearly 600,000 soybean farmers on national and international policy issues. Like other crops and commodities, transportation has a large impact on the bottom line for soybean producers.

Soybeans are especially impacted by transportation costs as over 50 percent of U.S. soybeans are exported and soybeans and soy products are the leading U.S. agricultural export with an export value of over $28 billion in 2013.

Soybeans provide an essential and efficient source of protein and vegetable oil that contributes significantly to feeding and nourishing the growing world's population. With tremendous increase in demand for poultry, pork, and beef which are fed with soybean meal is a primary reason for increased global demand for soybeans.

Many in the world rely on U.S. soybean farmers to meet their protein and vegetable oil demands. U.S. farmers in turn rely on trucks, rail, and barges to move our products to those markets.

A great deal of discussion has taken place in the last few months in regards to inadequate rail movement in the upper Midwest. The discussion is centered on slow shipments due to cold weather.

I understand that challenge, but I'm very concerned that the warmer temperatures are not going to fix this. The real issue is the shifting of rail assets to the rapidly expanding oil industry. This is occurring at the expense of longstanding shippers who rely heavily on rail movement to conduct their business.

As an agricultural producer in western Minnesota, I am faced with a direct and substantial financial impact. Inadequate rail service directly drives up the cost per rail car by thousands of dollars.

Within much of agriculture

including the soybean industry, when transportation costs escalate those costs are usually not passed on to the ultimate customer, instead they rest with the farmer on the local level.

Currently elevated transportation costs in my area equate to about 60 cents per bushel above what we have traditionally been paying, and we are seeing a 40 cent per bushel additional cost at least nine months out. This equates to real dollars.

I was able to get part of my 2013 crop moved before this transportation issue largely developed, so I am looking at a loss on my 2013 crop of about $40,000 on the remaining bushels that I need to ship. Income lost on next year's crop is projected to be much larger, far in excess of $100,000.

This is a loss for just one producer. When tabulated for the thousands of farm operations across the upper Midwest, the losses could be in the hundreds of millions of dollars. This is making lenders hesitant, and it could make it difficult for farmers to get operating loans to finance their business. A restriction on operating loans would have a devastating impact on farmers and on the rural economy.

Rail is an integral part of the competitiveness of U.S. agricultural exports. The United States has developed longstanding international marketing relationships built on delivering consistent quality and timely shipments.

Grain sales are made and freight is locked in with the understanding that shuttle trains will be operating with a turnaround time of roughly three trips per month. Recent shuttle turnaround times have been much worse and now a great deal of uncertainty exists in regards to future service.

Will adequate shuttle capacity be available to efficiently meet demand? Major railroad investments have been talked about but will they materialize and will they come before tremendous loss has occurred for shippers?

The impact to agriculture producers is not just on the shipping of harvested commodities to market, but also in getting inputs such as fertilizer to the farm to produce a crop in the first place. For many of us that time is now or is rapidly approaching.

The demand for rail shipments of soybeans is expected to continue to grow in the coming years, and this is supported by a farm-to-market study commissioned by the Soy Transportation Coalition and conducted by Informa Economics in July of 2012.

The study shows that in key states where we already are experiencing rail service issues today, the demand will continue to rise from the soybean sector. For example, in 2009-10, 126 million bushels of soybeans from

Minnesota were transported by rail and that number is projected to increase to 137 million bushels in 2020-21.

In South Dakota, it's projected to rise from 108 million in 2009-10 to 128 million in 2020-21. For North Dakota it goes from 147 million bushels by rail in 2009-10 to 187 million bushels in 2020-21.

The annual marketing report for the Upper Great Plains Transportation Institute at North Dakota State University shows that North Dakota soybean shipments have already gone over 172 million bushels for 2012-13.

Making production projections into the future is an imprecise endeavor, but the takeaway from most forecasts is that soybean shipments will be increasing, and the rail network needs to accommodate this growth along with the growth in crude oil shipments.

We know that there has been an increase in demand and severe winter weather has contributed to service disruptions. However, ASA is urging the companies and the STB to ensure that the service provided to soybean and agricultural commodities is in balance with that provided to other sectors.

For our part, to address demand over the long term ASA will continue to carry the message to Congress and the Administration in support of policies that encourage or provide direct investment in expanding transportation capacity including rail, trucks, and waterways.

This will include a tax credit applied to new rail infrastructure, funding for waterways infrastructure, and increased truck weight limits that will expand transportation capacity and increase transportation service competition. Steps to improve and expand energy infrastructure could also alleviate rail demand by providing alternative ways to accommodate the growing domestic oil and gas production.

Thank you again for the opportunity to testify here today. We appreciate the attention that the Surface Transportation Board has placed on this issue, and encourage you to continue to diligently monitor this process and ensure that progress is made to optimize the efficient movement of commodities by rail.

MR. GORDON: Good morning, Chairman Elliott and Vice Chairman Begeman. My name is Bill Gordon. I am also a soybean farmer. I'm from Worthington, Minnesota, and I'm testifying here today on behalf of the Minnesota Soybean Growers Association. Thank you again for the Surface Transportation Board holding the public hearing on rail issues.

Minnesota soybean farmers produce over 300 million bushels of soybeans per year, making us the third largest soybean producing state in the country and accounting for over $4.2 billion in value. Many of those soybeans in Minnesota are exported to China and the

Asian market, and get there by a truck and rail to the ports of the Pacific Northwest.

Minnesota soybean farmers are largely dependent on rail service, and the transportation issues have a large impact on our bottom line. The rail service problems have been acknowledged by the rail companies and are known to the STB, and will be detailed by many impacted stakeholders testifying here today.

As laid out by my colleague in the American Soybean Association, inadequate rail service directly drives up the rail car cost by thousands of dollars as reflected in the price farmers are paid locally. The cumulative financial impact for the thousands of farmers' operations in Minnesota and across the upper Midwest could potentially reach hundreds of millions of dollars.

The impact extends to the ability of farmers to get operating loans, which you heard already, which many rely on upon financing their business and the ability to get these materials and inputs to the farms to produce a crop.

The demand of the rail shipments of soybeans is expected to continue to grow in Minnesota and upper Midwestern states in the coming years. A farm-to-market study, as mentioned earlier, from Informa 2012, 126 million bushels in 2009-10 to 137 million bushels by 2020-21. The rail network needs to accommodate this growth along with the growth of other states and other commodity sectors.

We know that there have been increase in demand, and severe weather has contributed to service disruptions. However, the Minnesota Soybean Growers Association along with the American Soybean Association is urging companies and the STB to ensure the service provided to soybeans and agriculture commodities is a balance with the other provided to other sectors.

For our part, to address demand

over the long term we will continue to carry the message to Minnesota senators and representatives and to answer the Administration in support of policies and encourage investment in expanding rail capacity.

Together with our national organization we actively advocate for investment that expand transportation capacity and improve transportation efficiency including waterways transportation infrastructure and increased truck capacity and efficiency. Our competitiveness in the global market and our livelihood depend on being able to reliably deliver our products in a timely and cost effective manner.

These other modes of transportation are not within the jurisdiction of the STB, but expanding capacity for those modes may be the only way to increase the transportation service and the competition.

Thank you again for the

opportunity to testify today. Thank you again.

CHAIRMAN ELLIOTT: Thank you.

Mr. Andersen?

MR. ANDRESEN: Good morning. My name is Dave Andresen. I am the

CHAIRMAN ELLIOTT: Or Andresen, I apologize.

MR. ANDRESEN: That's fine. After 50 years, 60 years, I'm used to it. So thank you.

CHAIRMAN ELLIOTT: It's the first time it ever happened.

MR. ANDRESEN: I'm the CEO of an agricultural producer co-op in northeast South Dakota and southeast North Dakota. I'll be pretty brief because a lot of my comments have been made. My main premise is that the rail service needs to be restored to levels of the prior years for grain, ethanol, and crop nutrients commonly called fertilizer.

Our industry has been told

numerous times that the rail carriers have not taken away resources and allocated them to other commodities and that the real reason for the shortage of power is due to the extreme winter. I have lived in South Dakota for 20 years and 40 years in Minnesota, and I believe we've had extreme winters before.

I would ask the committee to investigate the possibility of other carriers to be allowed to operate in our corridor until this situation is resolved. While there are several shippers who will go into more detail later, I want to give you a flavor of what is happening at the local level, at our local cooperative.

Just one of our grain, most known as a shuttle loader, is currently two and a half months behind on service, or 800 cars. While the lack of grain service is dire, I believe the next real crisis is coming in the next week to ten days.

The crisis I speak of is the

continued lack of service of supplying the corridor with the needed crop nutrients that our patrons are going to need for the next planting season which is right around the corner.

Currently all ours, at our cooperative and other cooperatives, all our fertilizer agronomy centers are full of product. However, we turn or refill these plants multiple times during the season.

This is a very small window we have to work with. We're being told by our suppliers, do not expect much until the end of May. The planting season's over for corn at the end of May.

I got a phone call last night from one of our two major suppliers. Our producers and our cooperative put millions and millions and millions dollars down to buy product last fall and last winter. As of last night we got put on a 66 percent allocation of everything that we've already paid for and everything our producers have already paid for.

So if the rail service does not pick up in the next seven to ten days, our producers are only going to get 66 percent of what they paid for and may not get the balance. So if we're concerned about the rail service on hauling more corn out this fall, we may have just fixed part of the problem because it may not get planted. Plain and simple.

Like I said, I'll make up for lost time here. In closing, I want to thank the committee for the opportunity to be heard, and ask the committee to please understand that this is a situation that needs to be rectified now and not six months or a year from now. And I would also ask the committee to use any emergency measures in your power to alleviate this crisis.

I thank you for your time and I would be available for questions. Thank you very much.

CHAIRMAN ELLIOTT: Thank you, Mr. Andresen. Mr. Johnson?

MR. JOHNSON: Thank you, Mr. Chairman and members of the STB for holding this hearing. My name is Roger Johnson. I'm here on behalf of the National Farmers Union. I'm the president of that organization.

We appreciate very much the opportunity to express our concerns regarding recent service problems with respect to the U.S. rail networks, specifically the areas in Montana, North and South Dakota, and Minnesota.

Please note that I'm also providing copies of the North Dakota Farmers Union's testimony at their request. In addition, Montana Farmers Union submitted written testimony. South Dakota Farmers Union is also appearing here in a panel. And I would also like to commend the STB for holding a stakeholder meeting in North Dakota to address some of the issues earlier.

We are a grassroots driven family farm organization that represents roughly 200,000 family farmers and ranchers across the country. A large portion of our membership is located in these four states. These are states that are most affected by the recent CP and BNSF rail transportation delays as you've been hearing all day.

NFU has long advocated for protection of captive shippers. In fact, this is one of the issues at the core of our organization's creation more than 100 years ago.

Access to rail transportation continues to be one of the most important factors to the prosperity of rural America. Many farmers often operate on very narrow margins, and when you have these kinds of enormous costs imposed on the system it causes significant financial problems.

NFU is very concerned about the service problems on the CP and BNSF systems.

Our members report there's a significant lack of rail cars at their elevators which leads to delays and additional costs to elevators then passed on to farmers.

The delays we are told are caused by two factors, unusually cold weather and a low priority for agricultural goods in the face of significantly increased rail traffic specifically related to coal and oil. The former reason is understandable. Winters get cold. But it's also transitory and it'll fix itself.

The latter reason is a much longer term problem that this Board needs to address. As is stated in Montana and North Dakota Farmers Unions' testimonies, unfortunately agriculture does not seem to be a priority for either of these two railroads. It seems that oil, coal and container shipments are ahead of grain in the list of shipping priorities.

Oil production in the Bakken formation of Montana and North Dakota has led to tremendous boom in production. Compared to this time last year, the Bakken is producing around 1.1 million barrels of oil per day, up from 800,000 one year ago and up from 200,000 in 2009. It's a phenomenal increase.

Incidentally, in 2009 I was still the ag commissioner in North Dakota, and one of my responsibilities was regulating the oil and gas industry. Most of the oil at that point in time was shipped through pipelines. That capacity is full, so now it's largely moved to the railroads.

Similarly, there has been a significant increase in coal exports from the Powder River Basin to the PNW. Western Organization of Resource Councils recently released a study, Heavy Traffic Still Ahead -- I'll provide copies for the record for the Board -- just released a month or a month and a half ago which shows that coal exports to the PNW have more than doubled just since 2012.

And these increased volumes in coal and oil shipments have displaced grain shippers leading to long, expensive delays. Because there are fewer cars and ag commodities are not prioritized there are long delays in grain shipments.

Our members in North Dakota and South Dakota report delays of 17 to 40 days. Montana Farmers Union reports delays of around 28 days. These delays are very costly because end users impose stiff penalties for late shipments.

This is referenced in North Dakota Farmers Union's testimony. When delays exceed five days, penalties of five to ten cents a bushel apply per day. Grain elevators contract with these end users and ultimately have to widen the basis in order to cover the cost of these penalties, thus decreasing the cash price and passing these increased costs onto the farmers in the form of lower prices for the commodity being shipped.

For wheat that cost is around 40 cents to $1 a bushel which includes the penalty and the additional basis cost. Using just the lower number, this translates to a loss of about $10,000 per average farm just for wheat in North Dakota.

The situation is simply unacceptable. Commodity groups such as wheat have spent a lot of time and money building relationships with customers. As you heard earlier, the wheat in this area of the country, the majority of it, is exported.

It has to go over the rail to hit those export markets. Because U.S. wheat has been seen as delivered reliably and as a high quality product, it's often paid at premium for timeliness of delivery. With these ongoing delays, the relationships with end customers are at serious risk.

I encourage the STB to address the problems of captive shippers. In particular, I urge the Board to hold railroads responsible for losses due to delayed delivery of rail cars.

BNSF and CP need to guarantee that a certain portion of shipments will be dedicated to agricultural products. BNSF and CP need to ensure that there is increased investment going forward to account for the significant increase in demand.

Finally, as I know you are well aware, this area of the country has for many years faced noncompetitive rail rates due to the consolidation of the rail industry and the resulting lack of effective transportation competition. The recent oil and coal production increases have now placed further obstacles to fair, competitive rate treatment on agriculture and is a long term problem that needs to be addressed.

Thank you very much for the opportunity to testify. I look forward to the questions.

CHAIRMAN ELLIOTT: Thank you, Mr.

Johnson. Mr. Thompson?

MR. THOMPSON: Thank you, Chairman Elliott and Vice Chairman Begeman. My name is Kevin Thompson and I'm the assistant vice president and the transportation leader for the grain and oilseed businesses of Cargill, Incorporated in Minneapolis, Minnesota.

I appear today on behalf of the National Grain and Feed Association, where I serve as the chairman of the Rail Shipper/Receiver Committee. And I also wish to note that this statement is supported by the National Oilseed Processors Association, the North American Millers' Association, and other industry organizations.

The NGFA consists of more than 1,000 grain, feed, processing, and grain related companies that operate approximately 7,000 facilities that handle about 70 percent of all U.S. grains and oilseeds.

The NGFA commends the Board for conducting this public hearing and appreciates the opportunity to speak on behalf of its shippers and receivers of grain, oilseeds, and grain products concerning the serious rail service disruptions that's plagued our industry since last fall.

The NGFA would first like to provide several real-world examples of the impact in terms of market impacts and costs that rail service disruptions have had on our member companies and producer/customers we serve.

Second, we want to share some observations resulting from the ongoing dialogue the NGFA has been having with several affected Class I rail carriers. I'll conclude with several specific recommendations on the types of actions we believe the Board can and should take to improve the relevance, timeliness, and transparency of service related metrics and information that would be useful to rail customers to assist in planning logistics during what we anticipate will be a long, slow restoration of service, particularly in the western United States.

Rail service disruptions, which began well before the onset of harsh winter weather, have been widespread and severe. In the West, shippers served by the BNSF Railway and the Canadian Pacific have been particularly hard hit especially in areas like North and South Dakota, Montana, and parts of Minnesota were there are few, if any, viable alternatives to rail moving grain, grain products, or fertilizer.

Meanwhile, in the East, NGFA member companies served by the Norfolk Southern and CSX have reported service disruptions as well. In the case of the NS, members have also expressed concerns over the lack of adequate, consistent, and timely information that could have been used to make adjustments in logistics where possible.

The NGFA's strong preference is to have individual rail customers resolve service related issues directly through one-on-one discussions with their respective carriers in a commercial business setting. But since early January when the impacts began being felt industry-wide, the NGFA has taken on a greater role at addressing service related issues directly with the rail carriers on behalf of its member companies.

The sheer gravity, magnitude, and scope of rail service disruptions now being experienced are unprecedented and have rippled through all sectors of grain based agriculture. As a result, country elevators and other originators of grain and grain products are extremely hesitant to price and book forward sales from farmers or commercial elevators because they cannot count on predictable rail service or reflect the current level of freight cost in their bids.

Grain processors and export elevators have idled or significantly reduced operating capacity because of an inability to predictably source sufficient quantities of grains and oilseeds.

Millers in the upper and central Midwest are facing facility shutdowns because they're running out of raw commodities including oats and certain classes of wheat. Still other grain processing and animal feeding operations, particularly in the eastern United States, are shifting to comparatively inefficient and much more costly long-haul truck movements in an attempt to obtain sufficient quantities of grain and oilseeds.

Still others are switching rail origination to other carriers in the limited instances where that's possible. And for the first time in a long time, the United States' hard earned reputation as the world's most reliable supplier of grains and oilseeds and grain products to export markets has been put at risk.

Specific examples of economic harm

caused by rail service disruptions have been provided to NGFA by member companies in response to our request. In the West, the Canadian Pacific has been 60 days late or later in providing 100-car unit trains, and up to four months late on non-shuttles.

Meanwhile, the BNSF only now has started to provide certificate of transportation, known as COTs, trains that shippers have paid to have delivered in January and February.

The NGFA has also received repeated reports of locomotives being delinked from trains and cars sitting loaded, but idled, at grain facilities for over weeks on end.

In the East, there have been sharply reduced turn times on unit trains for both domestic and export service, increasing car costs, reducing capacity and causing repeated shutdowns of feed mills dependent upon rail deliveries. Likewise, single car shipments of ingredients for feed in both the East and West have been delayed.

Freight delays have caused grain, feed, and grain processing firms to alter commitments to farmers and commercial customers alike. Grain and feed ingredient contracts have been renegotiated and repriced often at a significant penalty as they were underfilled or rolled forward to future delivery dates because they cannot be executed with the contractual time of commitment.

Another fallout is illustrated by the values paid in the secondary rail car freight market where the majority of secondary rail freight has traded at values of approximately $4,000 per car which equates to $1 per bushel.

One NGFA member company provided the following actual case involving a unit train shipment of soybeans from North Dakota to the Pacific Northwest in March, in which the tariff rate was approximately $5,000 per car and expense to secure the necessary rail freight from the secondary market amounted to another $4,000 per car. After adding the fuel surcharge, the actual cost translated to $2.60 a bushel, which transportation alone represented 40 percent of that total cost.

For a time, our industry absorbed most of these additional expenses. But since early March, such escalating costs attributable to service disruptions have been reflected in lower priced bids to farmers in several regions of the country.

Our written statement includes charts that illustrate the precipitous decline in grain price bids offered to farmers in Montana and North and South Dakota.

Additional costs have also been incurred by those shippers and receivers that operate privately owned hopper car fleets. One NGFA member company in the eastern United States reported that the number of turns it got in its private car fleet declined to such an extent since March that it effectively increased its fleet cost and decreased its carrying capacity by 60 percent.

Cost impacts on individual grain, feed, grain processing, and export facilities obviously vary, but several NGFA member companies have reported that the cost to their individual firms have ranged from $10 million to $20 million during the October to March period.

Over the past 15 years, the U.S. grain handling, processing, and export industry and producer/customers have made extensive private capital investments including greatly expanding grain handling and loading capacity, private car fleets, and additional track capacity to further enhance efficiency. Some of that investment was made at the behest of rail carriers seeking improved economies of scale.

But despite these investments, our industry has found itself unable to serve customers efficiently or reliably during the most recent harvest season because of the precipitous decline and unpredictability in service from several Class I carriers.

Even during periods not characterized by the type of severe service disruptions being experienced currently, ag rail users often find that when rail capacity is in tight supply, rail service appears to suffer more for our sector than any other sectors that may be viewed as higher priority by railroads, such as coal, energy, and intermodal.

This raises a core question we believe the Board needs to assess carefully, namely, to what extent do Class I carriers in the highly concentrated rail market have a common carrier obligation to provide reasonable service on reasonable requests?

At what point is a railroad's decision to skew its allocation of resources and service towards certain products that maximize its profits inconsistent with the statutory common carrier obligation to rail users?

What are the carriers' obligations to balance their business desire for greater volumes and greater profitability with the traditional statutory obligation to provide reasonable service across all customer segments?

Concerning current service disruptions, the NGFA and its member companies have been in active discussions with several affected rail carriers on the causes as well as each carrier's recovery plans for restoring service. There clearly were root causes not attributable to weather, such as misreading the volume of business that would be generated by agriculture, coal, energy, and other sectors; inadequate locomotive power and crews; and operations related issues such as the continuation of maintenance-of-way projects during the peak harvest period.

The NGFA has encouraged each affected carrier to provide more information on when measurable improvements in rail service realistically can be expected, and to ramp up their ongoing communications with customers to provide timely and frequent information if their service commitments cannot be attained.

This information is critical for our industry to be able to adjust business plans and attempt to minimize the economic harm to operations and revenues, and to serve customers.

We're pleased in particular that the BNSF has responded with increased, ongoing communications with our association and its member companies as well as agricultural producers and other customers. We believe this positive dialogue with the BNSF will continue.

However, the NGFA believes the current situation warrants increased monitoring and collection of data on service metrics by the Board. We believe the Board should require affected Class I rail carriers to report, and subsequently should make publicly available to rail customers, the following types of specific service related metrics.

This information would assist rail service in making logistical plans and enhance the Board's ability to monitor service. Examples are, real-time information on train velocity and cycle times as well as realistic projections restoring service. Next, weekly car loadings by product and state.

Weekly average dwell times for trains hauling grain, grain products, coal, and crude, the date from January 2012 and onward. Weekly averages for miles per day transited for grain, coal, crude since January 2012 and onward.

The level of capacity utilization by rail corridors, particularly in the heavy grain corridors of the Pacific Northwest and Texas Gulf. For example, if a Class I carrier's capacity is 40 trains per day within the Pacific Northwest corridor, what percentage of that capacity is currently being utilized and what is the product mix?

Real-time data on the number of grain and oilseed, coal, and crude oil sets transported by quarter starting in January of 2012 and ongoing. Next, breakout of capital spending by Class I carriers.

The NGFA commends rail carriers for investing in their infrastructure, but we believe it would be advisable for carriers to report the share of capital spending being directed to new infrastructure capacity, such as new track, versus just replacement of existing infrastructure.

The NGFA also recommends that the STB requires carriers to report on a quarterly basis net crew and locomotive changes so rail users can better assess these barometers of potential service improvement. In addition, the NGFA recommends that the Board obtain and make available publicly the following information for each Class I carrier.

First, what plans, if any, do each of the Class I carriers now experiencing service disruptions have to make on additional business before current service issues are resolved?

Second, what plans do Class I carriers have for reducing operations-related service disruptions that occurred last fall including maintenance-of-way restrictions? Specifically, we believe the Board should require Class I carriers to provide rail customers with advance information on the precise location and duration of specific service disruptions caused by infrastructure projects.

Finally, we believe that during this period of service disruption, the Board should require affected Class I rail carriers to provide consistent, web based communications and e-blasts to all their rail customers on the status of their service and train orders.

Some Class I railroads are doing a commendable job in such communication with their customers, the BNSF and CSX in particular. But others clearly are not, more so relying on word-of-mouth or calls to specific customers, but not all. Rail users need more consistency in communication across the board.

At this stage, the NGFA does not believe it is advisable for the Board to take actions in the United States similar to those implemented by the Canadian government. We fear such measures would likely further exacerbate and slow the recovery and the restoration in U.S. rail service.

Thus we are not at this time asking the Board for direct service orders that would create preferences for agricultural shipments, but the NGFA is asking the Board to exercise very vigilant oversight during this period of service disruption to prevent rail carriers from allocating limited available capacity to serve new business from non-agricultural sectors such as coal, energy, to the detriment of ag customers.

We also believe the current rail environment points to the importance of the Board's proceeding on competitive switching rules under Ex Parte Number 711. The rail service disruptions experienced by ag shippers are tangible examples of why captive rail shippers and receivers need enhanced access to the lines of other carriers wherever possible to keep facilities open and operating, and markets served.

The NGFA also believes strongly that these rail service disruptions point to the urgency of the United States adopting a comprehensive, all of the above transportation infrastructure policy that supports all modes including inland waterways, harbors and ports, and trucks. We need all transportation modes if we're going to move this nation.

The NGFA appreciates the opportunity to express its views and recommendations during this critically important public hearing, and I would be pleased to respond to any questions the Board may have. Thank you.

CHAIRMAN ELLIOTT: Thank you, Mr. Thompson.

VICE CHAIRMAN BEGEMAN: Thank you all very much. Very useful information. If I could start with Mr. Lentsch, and thank you for reading the governor's letter. You mentioned that three elevators have 4,000 delayed cars, along with another 11,000 as reported by others, so that's a lot of delayed cars. Is this the amount just that you are aware of or does that pretty much canvas the state?

SECRETARY LENTSCH: Vice Chair

Begeman, that's what we are aware of at this point. Some of that is anecdotal. Some of that is the conversations that we're having, but by no means is that all-inclusive.

From our understanding, and I would just take this moment, it is as much what's in the inventory that needs to be shipped as much as getting ready for the 2014 planting season. That backlog of cars is very significant and very concerning.

I think Dave Andresen's point needs to be underscored, the fact that we are right on the front end of a very, very critical need, and that's our nutrients and our fertilizer.

VICE CHAIRMAN BEGEMAN: Could you provide some insight on the breakdown of the backlog, between, let's say, CP versus BN, since they are the only service available? Is it primarily on one carrier? Is it equally divided in terms of the problem? Any of you are welcome to comment.

SECRETARY LENTSCH: Sure, and I would probably lead off with just saying I think it's a systematic situation that we're dealing with. It's pretty clear that across our rail infrastructure in our state there's a need there to be collaborative and forward looking solutions, the main line being of course a BN line, the CP line, as we are looking at our state lines as well, trying to do everything we can to make sure that we're supporting free-flowing trains and rails in our state. But I would defer to others on the panel for additional details.

VICE CHAIRMAN BEGEMAN: Great. Mr. Handcock, I'll start with you. You mentioned that you'd been told no cars going east to Chicago. Could you elaborate a bit on what you were told and what option you would have?

MR. HANDCOCK: Vice Chairman Begeman, the other option would be to deliver that wheat to the Texas Gulf, which is not a viable marketing option.

VICE CHAIRMAN BEGEMAN: How do you get it there?

MR. HANDCOCK: Rail.

VICE CHAIRMAN BEGEMAN: I realize that, but if you --

MR. HANDCOCK: It could go on the CP or it could go on the BN, either way.

VICE CHAIRMAN BEGEMAN: So the same carriers.

MR. HANDCOCK: Same carriers.

VICE CHAIRMAN BEGEMAN: It's just that they will take you to a different place.

MR. HANDCOCK: It doesn't help our situation at all, it's just a way of deferring the problem. Moving the problem from wheat to corn is what I feel like. They're trying to catch up on the West Coast backlog that they have right now, and so they're trying to use the cars that they normally would have going over to Chicago and east, they're moving those into the corn and bean areas.

VICE CHAIRMAN BEGEMAN: But if I'm hearing you correctly that relates, although in a way it may sound good, it really isn't an option that works for you?

MR. HANDCOCK: No. I wouldn't have brought it up. It absolutely does not work for us.

VICE CHAIRMAN BEGEMAN: And is it because there's not a market?

MR. HANDCOCK: Correct. There's not a competitive market. That wouldn't utilize the same rail carriers.

VICE CHAIRMAN BEGEMAN: And for your future crop year -- does fertilizer come in tank cars?

MR. HANDCOCK: It comes in hopper cars. Well, dry plant food comes in hopper cars and then we also get UAN solutions in tanker cars.

VICE CHAIRMAN BEGEMAN: Mr. Whiteside, could you comment a bit further, for my benefit at least; you mentioned the 48-

car, I think you called it the marriage rule. And I think you said that Burlington Northern implemented it last August. Did I hear you correctly?

MR. WHITESIDE: Yes, ma'am.

VICE CHAIRMAN BEGEMAN: Could you tell me the extent to which, and I realize it may be your opinion, but has that rule had a real, true impact on the situation we're talking about here? Or is it just another frustration, that is causing your shippers who have 48 to 55 cars to be unable to move, because they can't find a competitor to join with?

MR. WHITESIDE: Well, I think the 48-55s, which are the non-shuttles, are suffering from two problems. One is the marriage car rule and number two is no cars. So I don't know that the marriage car rule has had the impact yet, simply because they aren't having the cars.

But the governor, or at least the

Department of Agriculture director is very engaged in this process of trying to figure out a solution in the state, and we're working with the Burlington Northern trying to find another solution rather than implement this thing fully.

But maybe the effect hasn't been felt quite as much as it would be if there were lots of cars available.

VICE CHAIRMAN BEGEMAN: Mr. Peterson, you mentioned your personal loss for the year, which to me is extraordinary, and your potential loss for next year, which I couldn't even imagine myself. But, do you have insurance? Does crop insurance cover that type of loss or do you just have insurance for during production?

MR. WHITESIDE: Yes, Vice Chairman Begeman, crop insurance would not play a role in this at all.

VICE CHAIRMAN BEGEMAN: You just have to -

MR. WHITESIDE: Oh yes, this is a risk that popped up that was most certainly not anticipated. So we've got many different types of risks that we need to bear, and this is one that certainly it fluctuates from time to time, especially if a very large crop comes and it needs to be moved.

But this one, okay, we addressed the fact that we had major winter concerns, but why are we looking at this problem having such a long tail into next year? Are we already predicting weather concerns for next year too? I think it's the opposite. I think there's so much uncertainty in the marketplace that the railroad's going to actually be able to deliver that then it's driving up the cost of those cars again, because they're saying we don't think we're going to get the cars.

So some of the shippers are saying, well, I'm going to have to pay this nasty price now because I've got to have cars. And then all of a sudden, there we've got

$2,000-$3,000 car premiums built right in because there's so much concern over the ability to move the freight and move the crops, move the goods.

VICE CHAIRMAN BEGEMAN: Mr. Andresen, and this will be my last question, you said that you got a call last night about only being allocated 66 percent of the product that you've already paid for. A call from who? Is this a carrier issue or is this a provider issue?

MR. ANDRESEN: It's a provider. It's one of our major wholesale providers. There's only so many people in the United States or Canada that you have as a major supplier, and we deal with two major suppliers so we don't have everything in one bucket.

And this supplier said, you are on allocation of 66 percent until we can get more freight. And like I said it before, this is things, this is millions of dollars that we have paid for and that the producers have paid for, so now at our level we have to go to our producers starting this morning with the phone call of who do we allocate this to?

VICE CHAIRMAN BEGEMAN: So that's basically a shipper problem for the folks that you bought it from?

MR. ANDRESEN: Absolutely.

VICE CHAIRMAN BEGEMAN: Okay, thank you.

MR. WHITESIDE: Madam Begeman, I think there, though, what you're talking about if I might, is that the reason that the supplier is saying 66 percent is because they can't get the cars to move there, so it's still a railroad problem.

VICE CHAIRMAN BEGEMAN: I understand that.

MR. WHITESIDE: Just reversed.

VICE CHAIRMAN BEGEMAN: I understand that, yes.

MR. WHITESIDE: Okay.

CHAIRMAN ELLIOTT: Back to some of

the questions that I asked earlier. One of my biggest concerns here is communications, and so I'm hearing somewhat mixed reviews on that. On this panel, is anybody here running into a brick wall as far as communications are concerned with one of the carriers, or are they seemingly discussing your situations with you as much as, I guess, can be possible?

MR. ANDRESEN: There's definite open lines of communication, but as a previous panel member had said, communication goes back and forth but there is no results.

CHAIRMAN ELLIOTT: Okay.

MR. ANDRESEN: So it's not like they're not talking to us, but

CHAIRMAN ELLIOTT: Right. Is that pretty much across the board that you are getting people to pick up the phone, it's just the results don't appear to be there?

MR. THOMPSON: Yes, if I could add, communications are much better and they have been since, you know, we really got into the heart of these problems.

I guess the one thing I would like to point out is the communications were after the fact, okay. The communications started once the problems really became widespread and started hurting the industry. We weren't communicated as the other product lines were continuing to have increased demand, which ultimately affected a lot of the other product lines.

So although being -- and that's why it's very important as we say to go forward to get real-time information and communication from all the Class I carriers.

CHAIRMAN ELLIOTT: Okay. As far as the communication, and this is more of a statement than a question. But I do want to encourage those of you who do have problems to use our Rail Customer and Public Assistance program, if possible.

I know Mr. Whiteside mentioned retaliation issues from his viewpoint, and I just want to assure you that that would not be tolerated by the Board and that would be something we would take very seriously.

But I do want to encourage you to use that process because we have had results, and especially if there is grain rotting or things that are especially of an emergency nature, they have been able to at least get some service there to eliminate those problems. So I do encourage you to use that.

Mr. Handcock, back to Vice Chairman Begeman's question regarding service through Chicago. Is that specific to both of the railroads, BNSF and CP, or is that just one of the railroads that isn't taking it through Chicago?

MR. HANDCOCK: Mr. Chairman, the only announcement we got was from the CP. We have not heard that from BN.

CHAIRMAN ELLIOTT: Okay. I just wanted to clarify that for my own information. Also I've heard some discussion in the hearing about some of these issues that some of the grain cars are either defective or require repair by you while you're on the run, basically. Has that been a problem for some of you?

MR. HANDCOCK: I can answer that, Mr. Chair, and I'm actually going to answer this, I hope this is okay, on behalf of the South Dakota Grain and Feed Association because we just did a member survey and we addressed this issue.

And there was a range from 3 to 15 percent of the unit trains were being rejected as bad orders, so it is an issue, and I can attest to the same thing in our locations. Probably somewhere between 3 to 8 percent of our cars are rejected as bad orders.

CHAIRMAN ELLIOTT: And is that on both carriers, BNSF and CP?

MR. HANDCOCK: It's probably better on the BN. The CP's cars are older cars for the most part. And on the BN it's all we get are shuttles. We don't get anything smaller than that. So the shuttle cars are usually in good condition.

CHAIRMAN ELLIOTT: Okay. Anyone else on that? Also, Mr. Handcock, you mentioned earlier about -- sorry to put you on the spot. That's what you get for coming in late.

You mentioned some penalties that some of the elevators are suffering. I think you mentioned $150,000, but it sounds like a significant number. When you have these communications with the railroads are there any discussions about how those penalties with respect to your service and service issues come into play? I mean do they work with you on that or is just a matter of you take the hit?

MR. HANDCOCK: Mr. Chairman, to an extent they will work with you. A lot of these penalties though are the cars do not meet contract time periods and are delivered late and they have to bought in by our buyer from another shipper that has that same commodity loaded already.

And so they impose a penalty on us based on what they had to pay for that commodity at that moment in time, if you understand what I'm trying to get at there.

CHAIRMAN ELLIOTT: Sure. All right, thank you. That's helpful. Anyone else? Mr. Gordon?

MR. GORDON: Mr. Chairman, come an unseen penalty is our export markets for, like, China. China basically imports like 70 percent of our soybeans. We have this delay of shipments. If there's not enough product in the Pacific Northwest to fulfill a shipment, China will go to South America and buy beans.

So not only do you not have the shipment, the beans are still sitting in Minnesota, North Dakota, South Dakota, you've lost the entire Panamax ship of soybeans to the South American market because they needed the beans yesterday, not three or four months from now.

CHAIRMAN ELLIOTT: I see.

MR. JOHNSON: And if I could add on that issue, along with that loss is the reputation and the likelihood that next year or the year after you're just a notch lower in terms of reliability. It's a really, really big deal.

CHAIRMAN ELLIOTT: I understand.

As far as grain car availability, do you see that as probably the most significant problem that you're facing at the present time that there just aren't enough grain cars out there for you, or is it more of a cycle time issue?

MR. THOMPSON: I can, Chairman.

CHAIRMAN ELLIOTT: Sure. Mr. Thompson?

MR. THOMPSON: Yes, I don't think it's so much car availability as it is, what it feels like from our members' statements it's more of a power and crew issue.

We have multiple examples where we have shuttle trains which are supposed to be a very efficient method of transportation with high velocity, high cycle times, we've seen many instances where they sit loaded at destination for anywhere from five to 15 days because they have to take power away from that train and take it and allocate it somewhere else.

CHAIRMAN ELLIOTT: Okay. Okay, that's very helpful. Thank you.

Mr. Whiteside?

MR. WHITESIDE: Mr. Chairman, I wanted to make sure that the record's clarified too. The folks that we've been talking with in the conference calls with your staffs and the offices have indicated they're very concerned about retaliation, but there's not been any open retaliation going on. It's a matter of based on past experiences they're very concerned, so that's why they're not opening up. Just to make sure that's clear on the record.

CHAIRMAN ELLIOTT: Thank you. I appreciate that clarification. That is important.

VICE CHAIRMAN BEGEMAN: Can I interrupt? I am curious how typical is it for you to come to Washington? I don't think you have time for that normally.

MR. ANDRESEN: Fortunately I was going to be out here anyhow to do some lobbying, but I was informed just yesterday that I needed to take somebody's place. So glad to be here.

MR. GORDON: Madam Chairman, Mr. Chairman, we decided three days ago that eight of us from Minnesota were coming out. We had plane issues so only six of us made it. Three are on Capitol Hill right now lobbying on this behalf, the other three of us, one from North Dakota, is in the room. And we fly out in three hours to go home to start working our planners so we can keep going.

VICE CHAIRMAN BEGEMAN: And in no way am I dismissing what you've told us, Mr. Whiteside. I am very sensitive to that. From where I come from, one doesn't really want to come to Washington, well, actually maybe you do. Thank you.

CHAIRMAN ELLIOTT: Any more questions?

VICE CHAIRMAN BEGEMAN: I just have one more a comment. And the smart people behind me might want to get a hook and pull me off this dias, but that'll be fun to watch too.

There is a transaction pending dealing with the state of South Dakota and with CP, and I know if that would go forward, and there's a short time frame; it would appear at this point, to be seamless but no transaction that I've seen, really, is seamless. So I hope that folks will really work together if it does get approved, to try to make it as seamless as possible. Because additional chaos is not something anyone can afford, whether it's the carrier or the state or your shippers.

There are a lot of people in this room. I hope they arere exchanging cards, that you're introducing one another to each other. Because I do agree with what Dan's theme has been throughout this, it is communication that really is critical, and the more that we can facilitate that communication, the more we would like to do so.

CHAIRMAN ELLIOTT: Mr. Whiteside?

MR. WHITESIDE: Mr. Chairman, Vice Chairman Begeman, it's really important for you all to understand that the growers need the railroads probably more than the railroads need them. And this is very important to the economy.

This fertilizer issue that's

coming up in the next two or three weeks, luckily in Montana it occurs a little bit later, but it's only three weeks away up there. If that fertilizer doesn't get there that crop will not be planted. If that crop doesn't get planted, then these effects go on for another whole year. And there's no concrete evidence right now that fertilizers will be there. And so we need action soon to see if that immediate problem can be solved. Thank you.

CHAIRMAN ELLIOTT: Thank you, Mr. Whiteside. I'd just also like to thank you very much, all of you, for coming. I know this was short notice and your testimony has been very informative and very helpful.

It's sometimes difficult for us to get a real feel for what's going on where you are, and you've really related that to us very well, and we greatly appreciate it and we wish you better luck on your flights back home. Thank you.

(Pause)

CHAIRMAN ELLIOTT: Great. Now we'll hear from Panel Number IV, BNSF Railway and Canadian Pacific. You can begin.

MR. BOBB: Good morning. I'm Steve Bobb, Executive Vice President and Chief Marketing Officer for BNSF. Mr. Chairman, Madame Vice Chair, we welcome the opportunity to review the factors contributing to service issues our customers are currently experiencing.

We have been in weekly dialogue with the staff of the Board, and regularly provide service metrics to help the Board better understand both the drivers of these problems and what we are doing to improve the current situation. We are very aware that BNSF service has not met our customers' expectations or our own high standards.

Let me say at the outset of my comments to you that we will do everything that can be done to restore service levels.

You have our commitment.

And to our customers who are present here, and the many others who are not here today, let me say, we know that we have created a supply chain risk for you, and fell short in providing a level of service that you expect from BNSF.

I'd like to review a few slides. It is important to view our current service issue in context, so as to better understand how we got here and what is required to once again reach service performance levels acceptable to our customers.

You can be sure we are doing all that we can, and expending every resource necessary to restore our network. And will do so in a transparent and accountable manner.

To explain how we got here BNSF volumes have continued to grow year over year, since the depth of the recession in 2009. As you will see on Slides 3 and 4, BNSF has been growing significantly faster than the rest of the industry.

In fact, BNSF moved over 400,000 units of the 800,000 unit growth on the U.S. Rail System in 2013, over 50 percent of the total. You will see in Slide 5 that the epicenter of significant -- Oops, went one too many.

The epicenter of significant BNSF growth is in North Dakota. You should know that during first quarter North Dakota grain products has grown 18 percent over first quarter of 2009. And North Dakota grain shipments have grown 41 percent since first quarter of 2009, during this first quarter of 2014.

This volume, all by itself, represents 20 percent of the Rail Industry's growth in 2013. The growth continues, as noted on Slide 6. Compared to 2009 BNSF handled more traffic in 2012 and 2013. So far in 2014, even with our current difficulties our volumes are higher yet.

During the first quarter of 2014, versus '13, South Dakota grain shipments are up 48 percent, and grain product shipments were up 14 percent. Volumes on our railroad are near our all time high of 2006, with a fundamental difference.

The growth rate of experience is on different parts of our railroad than the traffic of 2006. Specifically, this concentration is on the Northern Transcon.

The automatic assumption is that all this growth has been crude. But that is not the case. We have seen growth across many sectors of our railroad, with our largest volume increases coming from the domestic inter-modal shipments.

Twice this year we have moved over 200,000 units in a week. This hasn't happened in the first quarter since 2007. The assumption that all volume growth is crude is also linked to the persistent belief that service for crude shipments is given preference over other commodities on the railroad.

The reality is that crude volumes have seen a velocity reduction as well. Regardless of commodity, if a customer is experiencing a sever service issue we escalate the situation and focus resources to avoid a facility or plant from having to temporarily halt operation. This process is the same for all shippers and for all commodities, including grain, crude, and coal.

Looking to the long term, as we continue to do what we have always done, and continue to do, we're going to invest in resources to accommodate growth.

The last four years are our largest capital programs ever. This year and 2013 are each of the largest ever in the freight rail industry. We have processes for short and long term planning. And we have forecasts that are continually adjusted throughout the year. Every year we have a plan to flex up or down as needed.

What is problematic is that demand in 2012 and '13 exceeded what markets and our customers forecasted. This has resulted in being consistently and constantly flexed up for sustained and extended period of time as we continue to at capacity. Unfortunately, the flex wasn't enough.

The strain on our network was magnified last October when egg volumes spiked in a very short period of time, jumping about 40 shuttle sets in a two week period. At the same time, as crude spreads widened, and the additional facilities came on line, crude volume ramped up as well. Coal sets had also been steadily increasing since mid-summer.

Network velocity was declining during this period late last year, leading into one of the hardest winters we've experienced in decades. The sustained cold and record levels of snow had a severe impact on an already strained system. The Chicago complex in particular, which you'll hear more about today, became an incredible impediment to velocity and serving our customers.

We implemented numerous countermeasures, and added significant resources, such as people and locomotives during this time to keep freight moving. We have worked hard to be open, transparent and forthright with all of our customers during this challenging time.

We have worked on an individual basis with our customers to provide the most up to date information, and maintain two way communication to ensure we take care of their most critical needs. Some of those customers are here today.

With weather finally getting warmer, and summer maybe around the corner, we remain focused on working our way through this situation and improving service. There are signs of improvement, which are reflected in the current volume numbers. We also continue with our long term efforts to add capacity, and grow as our customers grow.

Capacity is added four ways, people, power, equipment, and physical plant. BNSF is investing heavily in all four. And much of that investment will be in the north where this growth is occurring.

We will work our way through the current issues, and come out of it a stronger railroad. The capacity being added will benefit all of our customers going forward.

Not all improvements are awaiting infrastructure investment. For example, we will have current Ag demand moved, and be positioned for a new crop this fall.

My colleague, Bob Lease, Vice President Service Design and Performance, will now walk us through this in more detail, along with our expectations going forward in our three primary regions.

I will then review the efforts we have taken with our customers during this time. And then we will be ready to answer any questions you might have. Bob.

MR. LEASE: Thanks, Steve. Chairman Elliot, Vice Chairman Begeman, good morning. Steve provided you an overview of growth, volume, and some of our challenge. I'll offer some further details. And to do so, I'll review a handful of slides, so as to better frame the testimony we're providing.

So on the first chart, too quick on the button. On the first chart you'll see there's an overview of our Ag volumes. And this compares all Ag shipments moved in the fourth quarter of 2013, last year, versus our peak year in 2006.

Customer shipment activity, you can see, is very concentrated on our north region. The largest increases are in loaded shipments, primarily moving from these north origins to Pacific North West export facilities.

On the next page is a view of our

network that depict industrial products, which includes crude by rail, and shows the volume surge we experienced, also in the fourth quarter of last year. Concentrated towards Chicago, but also increases in traffic towards the PNW. This traffic, along with Ag shipments, concentrated on our north region.

You will likely hear, and you have so for far from some of our coal customers today, regarding delivery stockpile, delivery cycles and coal stockpiles. We do put a lot of resources into supporting coal.

And the substantial run up of coal that occurred last year in both train sets and associated locomotives from the second quarter to the third quarters, we responded to increased demand with coal with an increase of 30 percent of cars and locomotives. Increasing those sets dedicated to movement of coal from 340 sets to 445 sets.

Drawing your attention to this slide, which does depict a lot of information, but really is a key element of timing of various activities.

As I just shared with you, through the second and third quarter volume in our large commodity sectors was quite strong. Then came October, which is where the lines converge towards the right side of this chart. That's October of last year.

Spreads in the crude oil market began to widen, driving up instant demand for more crude by rail capacity. Added to that a record grain harvest in a very compressed time period was underway.

We flexed resources from across our entire network, from all lines of business to support this surge in traffic, all of which occurred on our northern region. And then velocity began to slow, which resulted in a pattern that incrementally required more locomotives, more train crews, and more track capacity.

This slide really does sum up the

situation we faced in the fourth quarter. Grain surged, coal jumped, crude oil spiked, and velocity slowed down.

Earlier Steve outlined the four critical requirements of railroad capacity, locomotives, rolling stock, train crews and track capacity.

Looking here specifically at locomotives, we continue to add them in historic record numbers. Growing our resources in response to our customers growing their business. The same can be said of our train crews. We are adding train crews at a pace that exceeds our planned volume.

This is a view of how we think about and how we plan for capacity across our network. The traffic forecast that we have drives our review of potential bottlenecks to be solved.

In terms of critical resources, adding track capacity takes the longest time. In particular on our north region where the construction season is seven months long.

This slide looks at one key subdivision in our north region, the Glasgow sub, where we're investing close to $400 million to double the train capacity on just this one subdivision in four years.

Talking about winter, which is then repeated multiple times, a recurring thing through the day today. As we worked through our traffic surge from the fourth quarter we were behind in terms of velocity, behind in locomotives and crews. Then a really, really tough winter took hold, and the outcomes got worse.

We operated shorter trains due to the temperatures. We had to redeploy manpower from across our network to support the Northern Transcon, as well as operations in Chicago.

The resulting congestion in and around Chicago, brought about by winter conditions, had a ripple effect on all three of our key corridors, as trains were held in stage to manage the flow in and out of Chicago.

This began a period through February and March where interchange traffic as shifted away from Chicago to alternate gateways of St. Louis and Memphis. So of course, we did extend the transit times for shipments for many customers to traffic, rather through Chicago.

Many of our Ag customers, ethanol, sugar producers, crude producers and coal utilities, as well as others, experienced longer transit times as cars were moved on these alternate routes.

We operate a winter railroad on BNSF. We know how to execute across the northern plains. We've been doing it for a long time. But this winter was very harsh, and the numbers reflected on this slide can show that.

Going too fast. Given the surge

in traffic, a tough winter, and declining velocity, we took additional short term actions. Aggressively increased our hiring program for train crews, with emphasis on our north region, brought on additional locomotives and added supervisors, and strengthened our customer service processes to better ensure that severe service issues were captured and escalated as we continued an all hands on deck approach to recovering our network and network capabilities.

No railroad had spent $4 billion in capital until we did it last year in 2013. Followed by a $5 billion capital program this year. That's an average of greater than $4 billion a year over the last four years. We were significantly reinvesting in our railroad for growth, and our customers' growth. You can see the allocation of this year's Cap Ex program.

We knew the short term actions were not enough. We are taking steps to strengthen our commitment to growing our railroad alongside our customers. Our hiring plan now has been increased to 5,000 new employees this year. We're purchasing over 500 locomotives, adding to the increase in our road fleet from last year, as well as acquiring additional rolling stock.

Continued emphasis in adding train capacity, with significant investments in additional sidings, double track, as well as terminals.

Looking again at the map of our network, it shows the targeting capacity investments across our Northern Transcon, which are reflected by the stars that are concentrated across the top of the map.

I'm certain -- I'm not getting a response. There we go. I'm certain everyone would like to understand our outlook for the balance of 2014 and beyond. And to do that I'll offer an assessment of our three operating regions.

This shows our south region. The south region's our premium expedited inter-modal corridor, with connections to the Texas Gulf area.

As we enter the second quarter and work through the final effects of winter associated with the Chicago complex, the outlook is very strong for this segment of our railroad to execute the operating plan that's been similar to past levels of performance. Key indicators of dwell and velocity both bear that out, with productions in dwell and improvements in train speed.

The central corridor, the second of our large three regions, represents the majority of our heavy haul coal route, and includes the Powder River Basin area, as well as many of our utility customers and destination facilities.

While this corridor does not connect with Chicago through most of February and March, there was considerable congestion as traffic flows for manifest trains, as well as many unit trains, were shifted away from Chicago to gateway junctions on this corridor.

Heavy haul requires heavy maintenance, most of which is still ahead of us in 2014. Maintenance windows will slow train velocity. But we know how to do both, how to run trains and how to work on track. On balance, this quarter should see similar year over year performance.

Terminal dwell is improving on this region. Velocity is slightly degraded. Although all the alternate gateway traffic is now shifted back to Chicago, and we should see train speeds start to stabilize.

Coal tons, again, representative on this region. Looking at the tons of coal delivered, we're recovering from a really bad winter. And you can see that in the bar reflecting February. The coal tons delivered in March is our sixth biggest month in the last 27 months. We continue to handle a lot of coal.

Tons delivered is largely a product of velocity and equipment sets. As velocity degraded more sets were added. As velocity begins to rebound less sets are needed to deliver the same tons. There certainly is a clear cut lag in what our customers see and experience. But on balance, our coal train business is improving.

Our north region. Train crews, locomotives and rolling stock will be on-boarded to catch up with the growth in this corridor. At the same time the majority of our expansion capital will be spent on the northern route. This track capacity will not come on as rapidly as the other critical resources.

We fully anticipate 2014 will not return to the same level of train velocity that has been the norm in the past, or was experienced in the first and second quarter of '13.

Although terminal switching, local train service, including connections in and out of Chicago, will be restored to previous levels of performance, run times across the quarter will be longer while the variability will be reduced, until the majority of the capital projects are completed. Each new capacity investment piece will incrementally improve performance as it comes on line.

North performance, compared to our baseline from the peak of winter conditions, both train speed and terminal dwell have improved.

We have a long tradition of handling unit grain shipments across the upper Midwest to the export facilities in the Pacific Northwest, as we've heard this morning. Delivery of loaded units did not meet all customer demand.

But compared to previous harvest periods we have moved substantial volumes. We fully intend to be nearly current with past due grain orders by the start of this year's harvest.

Of course, the Board has heard about Amtrak performance issue, as well as Administrator Szabo's comments. Trains have been late, and variability has been high. Winter conditions and surges in train volumes have impacted all trains on our north region, as well as the empire builder and Amtrak Number 7 and 8.

As we move into April the overall lateness has been reduced. And the variability of performance has been compressed. Nonetheless, we've clearly not met or performed up to our commitments to Amtrak or their passengers.

We have crafted a new schedule, as was mentioned, with Amtrak on our northern route, that takes effect next week. This new schedule more closely reflects post winter track conditions and slow orders, as well as the increased volume of trains on the corridor. Steve.

MR. BOBB: I'd like to make a few comments about customer contact during this period, and then wrap up. During our operating challenges we have increased our customer contact significantly. And I will offer just one example.

Our industrial products team might routinely have about 100 business reviews with customers per quarter. During the first quarter that team had scheduled weekly meetings or phone calls with a focus on service numbering about 100 per week.

In addition to those scheduled interactions over 500 industrial products customer meeting or conference calls with a focus on service were placed during first quarter. A similar increased tempo of customer communication took place across all four business units.

We will continue a high transparency approach to customer communications as we work to add capacity throughout 2014.

We understand that we have shared a lot of information in a short amount of time, on a subject with many complexities that merit serious discussion. We also recognize that while we have experienced remarkable growth, and handled tremendous volumes, we have disappointed many of our customers in our handling of that growth.

I have no doubt that as we continue to analyze our approach and our actions for handling this increased volume, we'll find in our plan reviews that some of the root causes of the current congestion could have been prevented with a better understanding of the growth that had occurred, and is continuing to occur. And better asset planning could have occurred as a result.

At the same time I know that other factors, like the weather, were simply out of our control. We've heard comments, and I expect to hear more comments from our customers today, that will detail specific experiences where we failed to meet their expectations, and/or were unable to execute a needed service recovery.

I will be here throughout the day to make sure I hear their issues, and able to review what's happening, and what we're doing about it.

I also note that submitted comments suggest various segments wanting their freight moved in front of or instead of other freight. Freight rail is a network business. We will build our capacity with the goal to accommodate all of this demand. We understand that is our responsibility.

I'll add that the practical ability for direct service to move more volume is unlikely, given that the primary constraint is track capacity. We will continue our efforts to restore velocity and service levels in our network.

And we hope that you appreciate the level of energy and financial investment that we have focused on improving this situation as quickly as possible. We are confident that we are gaining momentum, seeing the improvements, and that much more are on the way.

As we move forward we are also committing that same level of energy to communicate with our customers on the status of their individual situations, along with the improvements on the network.

You will hear from several of our customers again today that are here. And I would expect that they will tell you we are not doing enough, and we're not meeting their demand.

We understand that velocity caused equipment shortages and/or variability in our operation, are forcing rail traffic to truck, impacting plant operations, and impacting operations of our customers' customer. At the same time, it's important to remember that we are a very busy railroad, handling lots of volume.

As we restore network velocity we will be in a position to handle customer demand. I promise you that all of us at BNSF understand the important and the urgency of improving their service. We also understand the importance of communicating with our customers frequently and with transparency. I look forward to your questions. Thank you.

CHAIRMAN ELLIOTT: Thank you Mr. Bobb and Mr. Lease. And I do greatly appreciate your commitments to work towards a solution. Mr. Creel.

MR. CREEL: Good morning Chairman Elliot, Vice Chairman Begeman. I'm pleased to be here this morning to have an opportunity to discuss the status of rail service this year, and to provide context in the challenges we at CP have been experiencing to reinforce that these conditions are temporary. Full service will be restored in the weeks ahead. And to confirm that providing quality service is how we work, and how we differentiate ourselves.

We're very aware of the impact this reduced network velocity has had on our customers and to their businesses. I can assure you of our commitment to turn the situation around as quickly as possible. And we'll do it as safely as possible.

As this is done we'll continue to communicate directly with our customers regarding our progress. I'd also like to stress that continually, we'll be involved in the steps required to return the U.S. network to above normal service levels.

But before I go any further I think it's important that we address two pervasive myths regarding our service. First, CP is not steering resources to Canada at the expense of the U.S.

Secondly, crude volumes are six percent of our U.S. traffic base. These are not displacing grain volumes, which represent 22 percent of that base, or other commodities for that matter. In fact, in the case of grain, it moves in large part different lanes than crude does.

Today I'll plant to focus my remarks on two important areas, service, and capacity on the railway. I'll review two major variables and their impact on our performance over the last several months.

From CP's perspective the single largest challenge to the railroad supply chain in the U.S. is congestion in the Chicago gateway. The railway supply chain both in Canada and the U.S. has had to deal with extraordinary extreme winter weather.

Yes, winter does happen every year. We prepare extensively for it. But from this past December to February railroads, and all modes of transportation, were severely impacted by the extraordinary cold and severe weather.

To quote some facts, according to the National Weather Service, between the months of December and February 67.4 inches of snow were recorded in Chicago, making it the third snowiest winter on record. It was the third coldest winter on record.

Based on the previous 119 years of data, the National Climactic Data Center released their analysis of the past winter recently as well. They ranked the period from December through February as the 25th coldest on record in North Dakota. Minnesota was even colder, ranking 6th on record.

These conditions delivered significant operational headwinds, to say the least. Sustained frigid temperatures become a tipping point in the railway industry. As you know, extreme temperatures requires us to reduce our train links to ensure we keep our air brakes functioning safely and properly.

Train link productions at 50 percent are not uncommon. This greatly affects train velocity, yard dwell and service, as a direct result of this reduced capacity.

The second critical point, emphasis added in CP's perspective, is our dependency on the fluidity of the Greater Chicago terminal. Roughly 40 percent of all CP U.S. traffic touches Chicago.

All carriers operating within the defined limits of the Chicago terminal are dependent on the terminal and its intermediate carriers and the bilateral relationships between railroads.

CP's operational performance, particularly in the United States, is tied directly to the fluidity of the terminal. After several months of congestion this continues to be our major challenge.

These conditions prompted the Chicago Transportation Coordination Office to escalate the terminal load levels rapidly. In fact, conditions drove from an Alert Level 1 straight to an Alert Level 3 over a period of one week in early January. In fact, over two days in January.

This Alert Level 3 remained in effect until approximately three weeks ago. The alert levels and the conditions are relevant, as they trigger a requirement for all of us to alter train design to block manifest shipments arriving and departing Chicago.

This decreases our overall network capacity by increasing the volume of switching activity and on line car dwell incurred at various locations across the system. Such measures are in place to assist Chicago's fluidity.

Train staging and on line switching activities are workload components that often get missed in our direct measurement of system or terminal fluidity. This combined with the inter train volumes which get routed via Chicago, and a high frequency of daily commuter trains and links, consumes needed capacity in the Chicago terminal.

The situation in Chicago will improve dramatically when the Belt Railway Company is able to become and remain fluid. They're experiencing congestion as a result of extremely high volumes. They're dependent upon traffic being moved on time by all carriers consistently.

If not, as a result, their departure yards will fill up, classification capacity decreases, which in turn results in creation of pole tracks and re-humps, or effectively double handling cars.

The net result is sustained delays in meeting demand in the traffic moving towards or through the Chicago terminal. Especially in a case like CP, where we're so dependent upon this terminal.

We've acted to alleviate congestion in Chicago by holding trains as far back as Minneapolis. We're asking all carriers to bring, and not hold any CP traffic. And we're moving some westbound trains over Chicago. We're switching at St. Paul and blocking eastbound traffic as far back as Canada, as well as adding additional resource and crews.

The complexities of the service issues which surround the relative fluidity of our Chicago terminal have become a North American problem that requires every carrier to commit to appropriate solutions. It requires leadership and commitment, with an equivalent sense of urgency directed at increasing capacity through this gateway.

I'm confident we will get the Chicago terminal reset to normal operating levels. It's important to understand, emphasis added again, that not one single railway alone will improve and solve Chicago's service.

The challenges of --

(Interruption in audio)

MR. CREEL: -- in the terminal. As you would expect, all commodity routes have an effect on these typical operating conditions. Service measured to CP --

(Interruption in audio)

MR. CREEL: -- versus last year.

In an effort to address some of the more specific questions, let me share some information relative to how CP is performing. Most importantly, we're dealing with normalized operations across the system.

Since early February we've been working with the shippers across the lines of business to find alternative routings, and ship around the Chicago terminal. This has been challenging for our customers. But such action is effective and necessary in seeking the appropriate routing relief.

We need to be taking action which promotes efficiency, improvement, and service for Chicago, and transit time for our customers. These choices may not always mean the shortest route, but under these conditions that should not be the deciding factor.

I'll give you a very powerful example. Take two energy customers that CP serves, as an example under current conditions. We encouraged both to route around Chicago. One quickly chose an alternate longer mileage route. The other declined. They followed the normal routing agreement.

The results speak for themselves. And they were dramatic. The decision to implement the alternate route saved the additional dwell time experienced over the period, and enabled one shipper to achieve nearly comparable year over year volumes. This is better for the shipper, better for the railroads and better for Chicago.

That was not the case of the alternate shipper. Let me take for a moment to expand on the significance of routing agreements. The way I see it, it's pretty simple. We need industry agreement on dynamic routing protocols that can be implemented quickly and effectively.

This means that we respond to extraordinary and escalating conditions with immediate plans to leverage to find alternate gateways. We need to have these in place pro-actively, and be positioned to reallocate resources promptly.

But I've got a slide here I want to show, moving to some grain comments. Let's see if I can -- Anybody have any idea where it would be? How about CP? There we go.

Okay. Down to the grain crop year. The grain shipping season in August took off with a slower than average start. As you can see, billing, or shipments came in below normal levels due to a later harvest.

We see the typical fall peak arrive between the months of September and November. CP grain shipments came in at 2,100 plus cars a week, with weeks in excess of 2,400 cars handled. The three year average is 2,200.

During this period we kept pace with demand and the flow of new customer orders. The challenge began in mid December when the orders outpaced average demand levels. Meaning, that just prior to severe weather and Chicago terminal congestion, we headed into the Q1-2014 environment with a climbing order deck.

With over 30 percent of all U.S. grain routing through Chicago issues performance issues became inevitable, given the environment outline.

However, while our eastbound grain performance, in comparison, came in below normal levels, more fluid operating conditions in the Pacific North West gateway, which is effectively North Dakota and South Dakota origins going to Canada, across Canada, and back to western U.S. ports, we were actually able to move volumes comparable to last year.

Arguably, had the overall operating conditions been more favorable we would have maintained momentum and service, and been in position to deliver a very reasonable percentage of last year's volumes. However, this isn't the case, as we know. And it's one of the reasons I'm here.

Through the month of April as the Chicago terminal improves we will regain our 2013 momentum across all corridors. Based on sustained demand this would translate to exceeding 2,200 cars a week through the end of the crop year.

Performance to that level would exceed the three year average by about 600 CP cars per week, or 33 percent. We'll need customer support to make this happen, and to validate that all new orders take into account what is also outstanding.

I understand that some are calling for more cars and locomotives. To add more cars and locomotives to a system that is congested and impacted by weather is the wrong thing to do.

This would be like adding more vehicles to an increasingly congested highway during rush hour, and hoping the traffic would move faster. It's simply not going to happen.

To put power in context, for those that may think we don't have enough power at our U.S. operations, during the month of March this year our U.S. locomotive counts matched 2013.

We're acutely aware of increased cycle time impacts, and the resulting constraint on car supply across industries. We have, and we'll continue to manage resources when and where it makes sense.

Other actions we've taken include ensure that we have the appropriate power plan to run maximum train links. This is ensuring that power is fed into the appropriate areas in a balanced fashion. We're building destination blocks to assist key locations, to ensure efficiency delivery and improve cycle times.

With respect to hiring and crew resources, there's no doubt that service levels have put a strain on our workforce. This has not stalled plans to hire and train both conductors and engineers. Classes are scheduled to cross the property are ongoing. And we'll bring in excess of 200 new hires in 2014.

I can tell you that in my two decades of railroading experience, these North American railroading conditions have challenged our operating employees in ways that I've never seen before. In the face of such operating conditions I'm proud of our railroaders who continue to work tirelessly, 27/7 to move this volume and improve service.

As I've stated, we'll get back to performance levels matching last fall and better. To achieve these results across our

U.S. network we'll require matched effort from absolutely every service provider.

With all that said, I hope it's clear, we are not interested in finger pointing. Rather, we seek to maintain a constructive dialogue with how we all create additional capacity inside and outside of Chicago.

These efforts will normalize terminal throughput and service in the weeks ahead. We'll continue to keep communication channels open with our customers. In the near term customers can also assist.

Additional capacity is achieved when rail cars are unloaded once available, seven days a week, 24 hours per day by all customers, across all roads. We need everyone to be thinking velocity to create the needed car capacity.

To unlock capacity and normalize service we'll need to seek the most appropriate approach in the near term, and to create the right efficiencies across every road and terminal. This will directly benefit Chicago and improve rail service across the board.

In closing, doing nothing ensures getting the same outcomes the next time these conditions exist. It isn't enough that we just do things differently. We simply need to do different things.

I can't speak for the other roads, but you've got CP's commitment to do exactly this. CP and its employees are committed to turning things around safely, and as quickly as possible. Together with our customers and partners we'll get it done. Thank you.

CHAIRMAN ELLIOTT: Thank you, Mr. Creel. A few quick questions to start. And as far as some of the commitments are made, I think I'm hearing from both of the railroads that are up here today that you are committed to work with your customers as much as possible during this, during the service problems, to reach mutually workable solutions. Is that basically what I'm hearing from BNSF and CP?

MR. BOBB: We have, during these circumstances, worked with our customers to adjust priorities. To deal with tactical, sometimes car by car, sometimes train by train circumstances. As well as, we are committed to the longer term, things we talked about relative to building out our network to handle all this demand.

CHAIRMAN ELLIOTT: That includes, in addition to working with your customers, committing to getting the proper resources where they need to be, in order to make this problem go away? Is that correct?

MR. BOBB: We are committed to putting the resources in place to move the volume on this railroad, yes.

CHAIRMAN ELLIOTT: Thank you. CP?

MR. CREEL: CP is absolutely committed to work with the customers. But it's such for CP, it's supported at the state. This is not a resource issue at CP. This is a velocity issue. This is a corridor capacity issue.

So it's not that our track doesn't have the capacity to handle it. It's not that the car fleets -- the issue is, CP's connected to Chicago in a huge way. And if our customers direct traffic to Chicago, and if these bridge carriers that we have to operate with become congested due to very real extreme winter conditions, these things will occur.

As soon as Chicago corrects itself, fixes itself, our capacity concerns go away. Now, we'll continue as we have, to work with customers in the meantime to try mitigate the impact of Chicago. And as I've stated, some have and some haven't. Those that have, have seen the benefit of it. Those that haven't, we still continue to work with them.

It's just, it's hard to do something with something you can't get around.

As of yesterday certain bridge carrier in Chicago, when we're holding 15 trains trying to get into the terminal. Adding 15 more is not going to do a lot to help it. You have to do dramatic things, which we're prepared to do, and we have done, and will continue to do.

CHAIRMAN ELLIOTT: And I've heard quite a bit as far as hiring and adding power from BNSF. And I heard you mention that you're looking to hire about 200 new train and engine people on the railroad. Is that additional 200 over and above the number that you have right now? Or are you just filling in positions as they attrite?

MR. CREEL: From CB's perspective it's more attrition. And there's a small increment for additional business. We don't have the same opportunity that BN has with that kind of growth. I wish that I did, but we don't. So that's pretty much where we're at with CP.

CHAIRMAN ELLIOTT: Okay. So,

based on that would it be fair to say that CP, in addition to cars and power, that this isn't really a manpower issue, as much as a congestion issue?

MR. CREEL: Yes. I'm not going to suggest there's not some times we run out of power. If we start continually re-crewing trains, or run up crews, continually re-crewing trains you're going to run out of people.

But by and large it's not a people issue at all. It's a velocity issue. It's the car issues. And it's the car cycles that get slowed down.

And when you can't get cars to destination and unloaded, and turned back as an empty, you can't fulfill grain requests or orders for those cars that are needed. That's the primary issue at CP.

CHAIRMAN ELLIOTT: Okay. One question I had. I thought I heard earlier from BNSF that you felt that you would be able to meet the grain shippers for, that you would be ready for the next crop. Did I hear that correctly?

MR. BOBB: Yes, you did.

CHAIRMAN ELLIOTT: Okay. I think that would be an assurance that a lot of people in the crowd would enjoy hearing. Is there something special that we're going to be doing?

I've heard some quotes in the press that the north is going to be slowed down, which I think you did say in your charts. Do you think you can do that, even with the capacity issues that you've had over the last several months?

MR. LEASE: I would say very similar to CP, or Keith's comments. It's about velocity. And for us right now as we continue to recover velocity, and particularly with grain shipments, we're seeing reduction in past due orders that progressively decline as we get more current on those past due orders.

And as we pick up more velocity, both Chicago as well as across our network, that generates its own capacity. Higher velocity means less locomotive demand, less crew demand, less car demand. And that actually creates capacity. So the velocity that we need to support the next harvest really is the net result of running a faster railroad.

As to capacity investments, we'll incrementally leverage as they come on line. And speeding up the general throughput post winter.

CHAIRMAN ELLIOTT: I heard earlier, and I don't know whose customer this is. But Mr. Andresen mentioned that he's up against it with respect to new trains for the future crop.

In situations like that, where you're seven or ten days out of not having what you're needing as far as customers are concerned on both the railroads, are you working with those individuals to make sure that they get what they need if --

I guess in his situation, he's not going to be able to get his crop in. Or in the situation of the coal, shippers that were saying that they're just going to run out of coal and have to shut down plants, as well as the chemicals.

MR. BOBB: Let me address both fertilizer and coal question. And then, Bob, if you want to fill in some details. But from the standpoint of fertilizer, we're aware that we have very large demand to move fertilizer on our railroad.

We've been in communication with our fertilizer customers about that. And we know that this is going to be a real challenge. In terms of facility by facility, where we're at on a seven or ten day window, I couldn't tell you specifically that here this morning.

But we are taking points to make sure that the empties and loads in that service are capturing every opportunity to move that we can.

CHAIRMAN ELLIOTT: Okay.

MR. BOBB: Relative to coal, we work with our customers on a ongoing basis to understand where they're at on their stockpiles. And make sure that we have the conveyor belt tuned, both the number of sets as well as the delivery rate to stabilize stockpiles.

And we've been doing this all through last fall as velocity declined on the railroad. And as winter compounded that we continued working with customers.

And in many instances we have stabilized stockpile situations. We're not 100 percent there yet. It's something that we continue to work on week by week.

CHAIRMAN ELLIOTT: In line with that, I was asking earlier some of the shippers, is there any chance or ability to work with other Class I carriers, if they're in a situation where they don't have as much congestion and there is capacity on their lines? Coal comes more to mind than grain, obviously. But do you see any of those opportunities, while you're in this situation?

I remember when you had the flooding, and BNSF did an excellent job of pulling out of the flooding, and threw a lot of resources at it. But at the same time, I know there was some cooperation with the other railroads. Do you see any opportunity for that here, as you go forward?

MR. BOBB: We are in discussion with a number of utilities about opportunities for them to move coal adverse to our existing contracts.

CHAIRMAN ELLIOTT: Okay. I appreciate greatly hearing that. And if there is anything we can do to help that along, I did mention in my opening earlier that we will act as quickly as possible, if that needs to be -- Anything with respect to CP?

MR. CREEL: No. No issues with coal at CP, unfortunately.

CHAIRMAN ELLIOTT: Okay. One last question, and I'll turn it over to Ann, so I don't hog the microphone. A lot of the shippers were expressing some concerns about the amount of information they're receiving.

And I know that's not the top priority that you have right now. The top priority is making the system work. But would you also commit to providing the information?

And I think you have done this fairly well with respect to the Board. But to the public and to the shippers, in order that they can see that things are changing and improving as we go forward.

MR. BOBB: We believe that we have increased our communication quite dramatically. And we would be very comfortable opening the information that we're giving to the Board, and putting it on our website for all of our customers to see.

CHAIRMAN ELLIOTT: I appreciate that.

MR. CREEL: We'd have no objection to doing the same.

CHAIRMAN ELLIOTT: Right. All right. Well, I appreciate your commitments that you have made. And I appreciate you coming here today. Vice Chairman?

VICE CHAIRMAN BEGEMAN: Thank you. I apologize if any of my questions are redundant. The Chairman had a lot of my same questions. But first of all, thank you. I'd like to start, if I could, by asking that you put the talking points down.

From what you've heard this morning, what is your reaction? Can you comment on what you have heard and give a clear message to your shippers as far as what they can expect?

Steve, you know, I had a little

concern when you said, "we'll be ready by next fall." I realize that's good news. I also realize that it's a long time between now and then.

And that means the folks that need that fertilizer are really, potentially, in serious risk. So I just would like for you to comment on what you've heard. Both of you, of course.

MR. BOBB: Well, certainly as I listened to the associations this morning, and we'll hear from customers here later in the day. We have, we heard many of the things that are reflected in my comments.

We understand that we have put risk into our customers' supply chains. We understand that we have impacted their operations. We understand we've impacted our customers' customer. And so we understand those impacts are out there.

We have, throughout the course of this, when we've learned of plant issues that involved a rail car or a train, that if it's not delivered within a time frame it will impact operations. We have focused on that specific movement, and done everything we could to make it happen.

Unfortunately, it didn't always happen. And sometimes that was weather. Sometimes it was a compounding of influences. But it's not for not knowing. And it's not for not trying.

We always focus on and hear about the ones that didn't work. But there have been a number of occurrences over the course of the last two quarters where our employees have made dramatic things happen to serve our customers.

But given the amount of customer communication that we've been doing, I would have to tell you that what I heard so far this morning is not surprising to have heard it.

MR. CREEL: And, Vice Chairman, I would say that similar comments, very empathetic with our customers concerns. Obviously, not losing their business is not in their best interest. And it's not in our best interest trying to run a railway business.

Our car loads are down. Our revenues are down as a result. Our costs are up. This winter, as much as, I guess the common thing people say and they think, winter happens every year. And it's cold in Minot. Well, I've been working in Canada for the last, more than a decade. And it's colder up there than it is in Minot.

But I've never seen the type of severity, the prolonged severity across both continents that spans west coast to east coast, down to the Chicago corridor, which happened to be where all, effectively where all this tonnage is, to have this kind of impact on train links and snow.

It just never came so long, so much at the same time, in such a condensed fashion. And I'm not going to suggest it's the new normal. I think it's a very abnormal situation. I think that we're adequately resourced. I think that in time, specific to the grain, we're doing --

Historically at CP we've done a good job of moving grain from our U.S. destinations. I'd argue the same for the Canadian. Although that perception might not be there right now.

But nevertheless, I'm confident that as our fluidity restores, and we're starting to see progress as well. The past several weeks we're back up to our historical levels as far as car spots. We just got a big hole to dig out of.

But we're committed to do that. I'm seized with that. Our team is seized with that. And rest assured, you know, some of the comments that I've heard that Hunter may have made, and that are taken out of context to me. That is not Hunter Harrison's focus, nor is it my focus day in and day out.

We understand how important grain is. All of our customers' freight's important. But some of the rhetoric that's out there, the stuff about crude. Crude is important. I value my crude shippers.

But if you know the facts of the business and the economics, I make more money hauling grain than I do hauling crude. So it's not a fact that we don't care about grain at CP. That's not the case.

And we'll just have to work hard to restore our credibility, to restore our customers' faith by moving their product. And do it in a timely and efficient manner. And I'm confident we have the talent and the ability, and the resources to do that at CP.

MR. LEASE: I think, if I can, Vice Chairman, I would have the following comment. I don't know that we do an effective enough job of telling our story that we're a network business. We run an outdoor assembly line.

So when a customer comments about a loaded grain shuttle sitting for a week, that's been loaded with soybeans in South Dakota. And why it hasn't moved, and the power's been removed. They don't have the transparency to recognize, in running a network we have a clogged pipeline.

We're holding trains short of destination going to the Pacific North West. We do nothing to help to move them if we advance that origin. I think sometimes those elements of running a network are not obvious to the customers.

I think in that line, following up on Steve's comments, where we can perhaps leverage communications a little bit more is perhaps around the elements of running a network business.

VICE CHAIRMAN BEGEMAN: Mr. Bobb, I was happy to hear your response to the Chairman's question, that you are in discussions with your competitors to --

MR. BOBB: Let me be --

VICE CHAIRMAN BEGEMAN: -- potentially --

MR. BOBB: -- clear. We are not --

VICE CHAIRMAN BEGEMAN: To potentially -- I'm sorry, I thought --

MR. BOBB: We are not talking to our competitors. We are talking to our customers.

VICE CHAIRMAN BEGEMAN: I thought it was just in response to certain areas, of where another carrier could come in, that isn't currently --

MR. BOBB: We are talking to our customers about exercising that option.

VICE CHAIRMAN BEGEMAN: Only to your customers. Okay.

MR. BOBB: We are not talking to --

VICE CHAIRMAN BEGEMAN: Okay.

MR. BOBB: -- our competitors.

VICE CHAIRMAN BEGEMAN: Well, I was curious when Mr. Kahn mentioned that he'd talked about this, the possibility of doing this since, March 7th or 11th. He said he had not heard anything back officially. Is he going to hear back from you?

MR. BOBB: Yes, he will.

VICE CHAIRMAN BEGEMAN: Soon?

MR. BOBB: Yes.

VICE CHAIRMAN BEGEMAN: Well, the more that you could talk with your customers, if there are areas that trackage rights would work, I want to join in what the Chairman said. We certainly encourage you to do so, if it can help unclog the network in a quicker period of time. Or unclog the shippers' backlog. What I'd like to know is, what, from your perspective, can the Board do to be helpful?

MR. BOBB: Okay. I will start. First, I'd like to talk about what I think the Board shouldn't do. And I mentioned it in my comments.

But engaging in a directed nature to focus prioritization to a specific piece of traffic or a specific piece of geography at the detriment of others, we think would be very harmful, not only to the network, but to our customers overall.

The rail network is a network business. And we are focused on moving all the volume. And so focusing on part of the volume, we don't believe is a solution.

Turning to what the Board can d. We believe that the things that you have done relative to monitoring our metrics, encouraging us to make those metrics public, encouraging dialogue like this forum, and holding us accountable to our commitments are all the things that we think would be helpful.

MR. CREEL: The only thing I would add to that, Vice Chairman, is to encourage the customers to continue to work closely with the railways as well. There's discussions both ways where the railways don't want to work with us sometimes, as in my case.

When you're dealing with a particular customer that you're bending over backwards to try to help them solve their supply chain problems, and they refuse to alter a gateway to fix the issue, it's tough.

And it creates a situation where that customer may be putting you into crisis mode, making special news, expending resources to avoid shutdowns, which has a ripple effect to other customers that may be working with us.

So from that perspective, I would encourage that Board that when customers call expressing concerns, just to ask the simple question, are you doing all you can do to work with the partnership of the railways, to try to mitigate the pain as well?

VICE CHAIRMAN BEGEMAN: And just so the record is clear, Mr. Bobb, I was not suggesting any kind of anti-trust violations, or encouraging them. Thank you.

Mr. Creel, you talked at length about Chicago. You talked about it when we met over a month ago, about that really, in your perspective, being a primary cause of your service problems at the moment.

You've been at CP for a little over a year, I think. Have resources going into the Chicago area been altered during your time? You know, have any facilities been closed, or downsized? Or is it sort of standard operating procedure in terms of crew, locomotives, and power?

MR. CREEL: Well, since I've joined the company we've actually increased capacity in the corridor going to Chicago, specifically in St. Paul. We've invested just last year about $15 million dollars.

We're in the process of a Phase 2 and a Phase 3 in St. Paul, to do additional blocking for Chicago to take cars, instead of sending them to the belt, or instead of sending them to a bridge carrier to go direct hit to railways. So it's increased, it hasn't decreased.

And Chicago overall, I'm cautiously optimistic. The weather's better. But there's such a backlog that's been created by this winter, as these railroads sort of flush out, for the lack of a better term, these bridge carriers only have so much capacity. So we have to do dramatic things to help them out individually.

So yesterday, you know, I mentioned the number of trains that we were holding for a particular bridge carrier. We did some dramatic things. And we switched some trains. And we've worked with our colleagues in the industry.

I could connect all the roads. They're all working very hard. It's not for a lack of effort or resources. It's just again, there's only so much capacity, and so much you could do so quickly. But it is getting better.

But we all have to stay seized with that same commitment, to make sure we push it until it gets to the point that it's reset itself.

VICE CHAIRMAN BEGEMAN: I believe it was Mr. Hancock on the previous panel who mentioned the directive that he was aware of recently from your railroad, about not taking orders going east. Although you mentioned, there was a willingness by your part to redirect to the south.

MR. CREEL: Yes. I'm glad you allowed me an opportunity to clarify that. Effectively, what's happened over the past couple of weeks since we last met, you mentioned this pending transaction that the STB has to review. We're anticipating and hoping for a favorable outcome.

We've worked with that railway to source additional cars at our expense, prior to the transaction, to bring those cars on line with an objective to apply those to corridors to orders that are open, that are old, that are outstanding, that avoid Chicago.

Now, we're not telling our customers that they can't ship to Chicago. That's inaccurate. In fact, we field on average 400 orders to Chicago for the past several weeks. I went back and checked it after he made the comment, versus a historical average of about 600. So we're not meeting all the demand.

And we are trying to discourage avoiding Chicago. Because I do not want to get these additional assets, the 15th or the 16th or the 17th train in line, and effectively end up with all of your fleet under load. And our orders would go even down further, which would adversely impact the customers even more.

So there's a fine balance we're trying to manage. I regret that the perception of the Association is we're taking no orders. That's not the case. We're just not filling all orders. And we are discouraging orders going through that market.

VICE CHAIRMAN BEGEMAN: And maybe this is a question for both of you. But for those situations where you do re-routing with another carrier, a lot of it due to prevent facility shutdowns, and working with your customers in order to switch traffic to different gateways, do they have to pay more for that?

MR. CREEL: Typically the customer does not, no. It's more about the shared revenue between the railways. So the commercial teams have to get together and essentially decide how they're going to shift and how to share the revenue.

MR. LEASE: Many of our movements were a change of the operating junction, not the revenue junction. So we changed it effect tactical re-routing of trains, not to change the revenue, or the division of revenue between the carriers that participated in it.

VICE CHAIRMAN BEGEMAN: And on the, I think it probably technically was the second panel, with the gentleman from Amtrak, I asked him about some of his charts.

I was curious if either of you have any differing view regarding the cause of delay, by the host railroads? Everyone knows that you have an obligation for priority. If you wanted to comment on what his view was?

MR. LEASE: To just elaborate a little bit further. So the source of information that is the capture mechanism for delays has been the conductor on the train trying to then, through communication with the dispatcher, or between, back to Amtrak's office, to try to understand the scope and nature of a delay. They then capture, catalogue and report those delays.

I'll refer back to, we're a network business. And the fact that may have had a crossing accident that occurred 250 miles away, but it consequently has backed up traffic, because we have an impediment to flow, may not be an awareness point to either A, the dispatcher where Amtrak is currently at, or the train crew themselves.

So there's, at times there's going to be a mismatch in terms of what we think the actual cause of delay is, and what the reported cause is. I would say that collectively with Amtrak, and at least with BNSF, we spent a fair amount of energy over the last several years trying to reconcile and improve the process.

So I think there may be errors now. But it's on the margin. I think we've gotten a lot better at that process. So that there is more accuracy in trying to capture the legitimate cause of delay.

MR. CREEL: CP's not very, not exposed to the same degree, or involved with Amtrak or routes from Milwaukee down to Chicago. They're affected by Chicago. So if

Chicago's running well, then those trains get over the road well, and the service is well. If Chicago is not, it's going to be a tough challenge to make that happen.

VICE CHAIRMAN BEGEMAN: Mr. Creel, can you comment regarding the Canadian Mandate from a little over a month ago? Not the proposed manate.

MR. CREEL: Candidly comment?

VICE CHAIRMAN BEGEMAN: Well, use your own judgment. But, you know, I'm curious to know the extent to which the requirement to move, what was it, 500,000 tons. How does meeting that mandate, and I understand a mandate you need to meet --

MR. CREEL: Yes.

VICE CHAIRMAN BEGEMAN: -- how does that impact your ability to serve customers here?

MR. CREEL: It's not affecting. Short answer it's not affecting. We're actually moving under the mandate the same level of grain that we were moving back in February, in the toughest of winters.

The, I guess I don't want to say the luck that we had, or the fortune that we had, the corridors we were moving the grain in, back in the worst of February, was west of Calgary to Vancouver, which happened to be warmer. So we didn't have the same challenges with the weather and with the temperature.

And at the same time our competitor, due to their own operational challenges, they were not moving quite as much grain into that corridor. So we sort of filled the vacuum. Our assets turned very fast. So even now, we're still moving the same amount of volume.

It's challenging in the Canadian network, balancing that against all the other Canadian bulk business that we have to move. So it's not easy. But it's insulated. And it's not affecting the U.S. operation at all.

VICE CHAIRMAN BEGEMAN: And of

close this portion, at what point can shippers hope for normal, a return to normal service?

I know you mentioned next fall for grain movements, et cetera. You probably have different answers to that question. But what should our managed expectations be?

MR. CREEL: I would be guessing mine's going to be strictly dependent upon Chicago. The weather is good. It's just all the backlog that has to be cleared up. And cycles have to be restored to normal.

So my guesstimate would be six weeks, four to six weeks things should be normal if everyone does their part. At least that's what I'm anticipating an hoping for.

MR. BOBB: I would draw a comparison to when do we reestablish what we experienced last year, and return to operations that were more like last year, which certainly wasn't what we would say is good enough. But certainly better than what we experienced during the first quarter.

So we think that as the system evolves with additional capacity we'll come to a new normal. But we are already seeing the benefits of increased locomotives and increased crews on the railroad. We've obviously seen the benefits of weather.

Some of the track capacity, that will take longer to come on line. And so we have a lot of infrastructure that will be built out this year. And we also believe that there will be additional infrastructure that gets built out next year.

So when we think about it, as Bob went through the various quarters he gave a sense of within each of the regions, what customers should expect, as compared to last year. That's how we think about it.

So we think that in the north we will recover from the weather challenges. But given the volume and the amount of infrastructure to add in the north, we do not see a return to pre 2013 velocity. It will take a while to get that network back.

Contrast that with the south. We believe we will get back to pre 2013 velocity as the Chicago complex normalizes, coming out of the winter. So that's how I would address it.

And the important point I would add is that this is about moving volume. And so to your earlier question about coal customers, we're working with coal customers about making changes to contractual commitments that help them deal with their circumstance.

So it might be contractual commitments that are relative to volumes. It might be contractual commitments that are relative to moving in and out of specific origin destination pairs, if we can relax that and give them the ability to divert mines, that helps as we work through this.

Contrast that with saying, putting another railroad, operating on those same congested tracks. We don't see that helping circumstances at all, especially when the issue is track throughput.

So our view is, we're working with our customers around the existing infrastructure to maximize the ability, given the volume and the velocity constraints that we face.

VICE CHAIRMAN BEGEMAN: All right. Thank you. And thank you for agreeing to stay for the rest of the hearing, and listening to the rest of what the shippers' comments are.

MR. BOBB: Of course.

VICE CHAIRMAN BEGEMAN: And with that, I hope you will really take to heart what you heard from the previous panel about the next three weeks, and whether or not we're even going to have a crop season for you to move. Thank you.

CHAIRMAN ELLIOTT: Just one last kind of bring it to a conclusion type question. I think earlier I heard that we don't want this to happen again, and that we have to do this differently.

And I heard a lot about some of the investments, the capital investments the railroad is making at BNSF. Are you working on a plan to make sure this doesn't happen again as we go forward?

MR. BOBB: As I mentioned, we certainly will look at our planning and forecasting processes, and see if there was information that we could have used differently for a different outcome.

But the reality of the circumstance that we faced in 2012 and '13 is that our volumes increased, certainly faster than we expected. Certainly faster than many of our customers expected.

And while we had existing processes to have both rail and terminal capacity plans out into the future, so that as volumes differently than we expect, we can either pull those projects forward or delay them.

The last two years we've been pulling those projects forward. And at some point in time you bump against the practical reality of you got to get a permit to build it. And we've pulled that pipeline completely forward.

So what we would say is perhaps a key learning is we just make that pipeline of pre-planned projects even bigger than we have in the past. And that's one thing that we think we've consistently done, is add the capacity that facilitates volume growth. Because we believe volume growth is inherently good.

Volume growth is good for the network, it's good for our customers, it's good for the communities that we serve. Because the more robust of a network that we can build, the better it is for all the participants in that network. And you build a robust network by having volume.

MR. CREEL: All right. Chairman, I would say, as I've stated before, capacity is not the issue at CP. It's Chicago capacity specific. And obviously, we can't build another rail yard or another rail terminal.

So what we're seized with is, we've been going through, and will continue, and I'm going to escalate this with all the different roads, is routing protocol. Simply, if it doesn't need to be in Chicago, given we have a capacity problem, the way to mitigate it is, don't have it in Chicago.

So from a perspective of operational efficiency, as opposed to commercial efficiency, we're going to work closely with each of our partner carriers to see if we can do some things to get traffic out of that city that does not need to be in that city.

CHAIRMAN ELLIOTT: Thank you very much for coming today. And your testimony was very helpful. And thank you for your commitments. It's much appreciated.

(Pause)

CHAIRMAN ELLIOTT: All right, why don't we get started again. We will now hear from the fifth panel, basically the Class I railroads. Why don't we start with the AAR. Mr. Harris.

MR. HARRIS: Thank you, Mr. Chairman, Madam Vice Chairman. My name is Jeff Harris. I am Assistant Vice President of Operations Planning with Norfolk Southern and I am Co-Chairman of the Chicago Planning Group.

So today I would like to provide the Board with a brief perspective of the makeup, the function, the interaction and the coordination structure, network if you will, of the Chicago regional rail operation.

Disclaimer that I realize I may be using some unfamiliar terminology. I'm basically an operating guy so if I say something confusing please question me on it.

Sometimes operating terminology is a little different than legal terminology, so I would beg your indulgence there.

But my intent here today is just about four things in connection with Chicago, what it is and what it isn't, how the railroads interact and coordinate their movements, what happened and what we did about it.

So basically Chicago is the nation's largest rail hub. Twenty-five percent of the nation's freight touches Chicago. There is nothing else like it. There are six Class I railroads, two intermediate switch carriers.

Amtrak and Metra operate about 1,300 daily trains through Chicago. Seven hundred and sixty of those trains are passenger trains and those passenger trains run on shared corridors with freight trains.

Roads interchange or deliver to each other every day about 10,000 to 14,000 cars. On any given day, there are anywhere between 40,000 and 58,000 railcars within two days of Chicago, headed towards Chicago, pointed towards interchange.

Also the railroads handle their own traffic, that is not interchange traffic, their own personal traffic, through Chicago as well.

And issues in Chicago obviously have a definite ripple effect in both directions through our respective railroad networks.

How we manage Chicago is it's a unique collection of railroads and we try to coordinate the throughput of Chicago using tools and committees.

No one railroad controls the majority of Chicago and we do need to keep Chicago focused as operating like a unit.

So underneath the umbrella of the AAR, our Safety and Operations Management Committee, or SOMC, which are our chief operating officers, have a couple subcommittees, the Terminal Oversight Committee and the Chicago Planning Group of which I am Co-Chairman.

Beneath the Chicago Planning Group, we have our organization in Chicago which is called the CTCO. That stands for the Chicago Terminal Coordination Office.

The word coordination is important because it's not a command center and it is not in charge of Chicago. It's in charge of coordinating the throughput through Chicago by using several tools.

CTCO is staffed at a superintendent level from all of the Class Is and the switch carriers as well as Amtrak and Metra. We have 100 percent participation. It is fully staffed and it is led by a general manager at a director's level.

They are charged with implementation of institutional improvements such as communication processes, train protocols, daily conferences, facilitation geared to maintaining fluidity throughout.

And they have a daily metrics collection review to keep them kind of focused on the pulse or the health of the Chicago terminal.

Some of the tools that the CTCO has. We have twice-a-day conference calls between carriers for exception planning and resolution of conflicts which also allow them to keep their thumb on the pulse of Chicago.

They have instituted protocols that prioritize the operation of trains based on train type.

They do maintenance scheduling with reroutes to avoid service disruptions during our planned outages and we have corridor reroute plans in anticipation of potential unscheduled or emergency outages.

They do winter weather preparedness checks. They have a visibility of the current operation corridor through dispatch screens and RTC real-time modeling.

We are working on automation of the exchange of information between carriers and they have direct access with all carriers for minor dispute resolution and escalation if necessary.

One of the tools we have in Chicago is our CREATE program. It's a public/private partnership. It's a $3.8 billion program and that's currently under construction in Chicago.

The CTCO has also established a Chicago-specific alert plan with alert levels and action items.

The plan is very detailed and very specific. It's revised as needed and it's fully supported at our chief operating officer's level.

And basically when you get to the highest level, which is Level 3, the action items in Level 3 are designed by their nature to be extreme and short term to allow us to relieve the congestion in Chicago to enable the traffic to resume a more normal route and it's probably geared for a couple weeks' worth of activity.

What's happened in Chicago is the railroads have obviously seen steady growth as you've seen for the last few quarters prior to 2014.

New opportunities increase in many rail markets and the traffic mix that we see has changed dramatically from the last few years.

Our surge capacity individually is diminished due to a combination of weather and volume. We no longer have the ability to add extra trains to the mix.

And, of course, the weather as you've heard from everybody is, I don't want to reinforce it too much but it was the coldest winter in Chicago's history, the third most snowfall in Chicago's history.

We had nine major winter storms

that affected either Chicago or the network that ran into and out of Chicago.

And those kind of conditions have a dramatic impact on the railroad operation. They have a compounding impact on the resources of the railroads. Basically the weather was one of our worst enemies this year.

The state, local, federal government offices closed. The lake was closed to shipping. The interstates were closed in many occasions.

The Chicago Public Schools closed so many days they canceled spring break, but the railroads remained open, moving traffic through Chicago 24/7 and never closed the gateways.

Generally we averaged 11,000 cars a day exchanged between each other during the winter. The worst day was January 6th where we only exchanged 3,350 cars between each other and the worst week was the first week in

January where we averaged 6,800 cars a day between each other.

So the impact of the weather-related reduction in interchange caused obviously the backlog in Chicago, and as we've heard, railroading in bad weather is challenging.

So we also during this winter maintained the integrity of the passenger operations, Metra and Amtrak, through Chicago.

How did we handle it? We went to Alert Level 1 on January 3rd, which caused elevated communications and interaction between the carriers.

On Sunday, January 2nd in anticipation of the next snowstorm we went to Level 2, which allows us to begin to implement some of the Level 3 action items in anticipation of going to Level 3 which we did the following day, January 6th.

So on January 6th we executed the action items in our alert plan and effectively diverted about 90 to 100 trains a week or 8,300 cars every week for ten consecutive weeks as well as a tactical plan where several railroads who were not diverting traffic did self-help by reswitching cars to avoid some of our switch carriers. That accounted for another 3,800 cars a week that did not go into the switch carriers. We did this for about ten weeks.

And we also prepared an inactive plan in case things got progressively worse because as bad as it got we always had the potential of getting worse.

So on January 29th, we brought the service design folks from all the railroads together in Chicago to see if there wasn't a little more we could do because we weren't satisfied with the activities bringing enough -- I got a couple more seconds here, but --

CHAIRMAN ELLIOTT: Take your time.

MR. HARRIS: Okay. We weren't necessarily satisfied that the activities were giving us enough relief in Chicago so we enacted more alert level items.

As a result it took 70 days until March 17th, and on March 17th we reduced the terminal from Level 3 to Level 2. Now, at Level 2 we still do many things until we are able to resume the normal flow of traffic in Chicago.

How did we do? We stayed open for business. We never closed all the while. I grant you that there is a backlog of traffic, a large result of the reduced flow accounting for weather and some of the traffic that we've diverted.

The traffic dwell was still too high. The staged and recrew trains are still too high. We're not necessarily satisfied.

But basically, I mean, the Chicago terminal and all of its parts worked pretty well together. Did I lose the mic? No, I'm sorry.

CHAIRMAN ELLIOTT: No, you're

fine.

MR. HARRIS: A large part into our CTCO office. I think the coordination of many efforts in Chicago was probably at heart in keeping Chicago, at least our head above water during this terrible time.

Now, CREATE played a positive role. Had we finished more projects, which we will in the future, I'm sure it'll play a better role because CREATE is a capacity enhancement. Allows us to move between railroads much more fluid.

As an industry, are the railroads satisfied with what happened in Chicago? No. Can we do better? Yes.

What are we going to do? We're going to remain focused on, first of all, getting the terminal back to normal.

Second of all, we're going to continue to debrief on the action items that worked well and the ones that didn't and we're going to develop better methods to have metrics in place to allow us to better forecast the upcoming conditions to react a little more in advance of problems rather than after the problem.

We'll finish the construction of the CREATE projects and we'll keep the CTCO focused on coordination in Chicago, but basically the Chicago operation is very complex. It requires a great deal of cooperation and interdependency.

Planning and execution of movements between Chicago railroads can be very difficult, sometimes very stressful and seldom very easy and always a challenge as the operation never stops.

So while the waterways and the interstates and the airports and the schools all closed, the railroads were out there working and Administrator Szabo said we were doing it very safely. Thank you.

CHAIRMAN ELLIOTT: Thank you, Mr. Harris.

MR. LIEPELT: Chairman Elliott, Vice Chairman Begeman, thank you for the opportunity to appear today. I am Jeff Liepelt, Senior Vice President of Southern Region Operations for the CN and I am responsible for managing the CN's U.S. operations.

As Jeff Harris outlined, there is little question that the carriers operating in and through Chicago have had a difficult winter, one of the most difficult in decades and one that compromised service severely.

Further, given the volumes of traffic moving to, from and through the area, the issues in Chicago radiated outward to servicing areas beyond Chicago.

Through our networks, the issues on other parts of the respective networks that faced similar winter conditions and concerns, if not worse, impacted Chicago also.

In Chicago we have worked together and individually this winter to confront the problems presented to minimize as best we could service disruptions to our customers and the public. It was impossible in the circumstances to avoid all, and not every customer was pleased.

But speaking for CN, where there were issues in service, we had policies in place designed to treat customers fairly, generally assigning power and crews, for example, to shipments that had waited the longest.

One of the lessons those of us in Chicago know is good weather and bad, but especially in extreme winter conditions like those in the past months that will cause locomotive breakdowns, strained crews, shorter trains and greater congestion, is the importance of maximizing the use of available assets and area rail capacity as well as improving and growing that capacity to meet ever increasing customers' demand and safe and efficient rail service.

Even with the EJ&E, CN did not escape the conditions of the past several months, but the EJ&E has allowed CN to absorb most of its trains that would otherwise have had to move through the central Chicago core which, in turn, has taken our trains off the BRC and the IHB and allowed other railroads to take those spots to benefit all the other carriers.

Another example, the improvements being undertaken in CREATE to improve and expand rail capacity will likewise produce efficiencies that should help mitigate the conditions that severe winters such as the past one presented.

No improvements are inexpensive. After acquiring the EJ&E, CN has invested over $270 million in added improvements on the line, including close to an expected $60 million of our share of the two grade separations imposed by this Board.

The infrastructure we added and

the improvements we have made to the EJ&E have allowed the fast recoverability when there are disruptions such as those we experienced this winter.

And while you can't spend your way out of winter, dealing with winter is expensive too. CN spent more than $4.3 million in Chicago alone directly related to snow removal this past winter. That's five times more than the normal winter.

Large locomotives cannot just run through heavy snow and when it comes to switches and rail yards it takes very little snow to impact the rollability on a hump or the automatic switches to move.

We make these investments and expenditures to improve our ability to serve our customers and to help them succeed in their markets.

And without those investments, both ours and our fellow carriers in Chicago, the ability to deal with problems this winter in Chicago could have been considerably worse.

There is still more work to be done and we will continue to identify opportunities to make Chicago more fluid and deal with the winter in other ways.

With spring arriving, the service is returning to normal levels. CN will be debriefing shortly while this winter experience is still fresh in our minds to determine how we can be more resilient next winter. It is about mitigating impact as winter will always come and there will always be issues.

We are committed to prepare better to reduce the recovery time so that the impact to our customers is as minimal as possible.

Thank you for this opportunity to speak. I will be happy to answer any questions you may have. Thank you.

CHAIRMAN ELLIOTT: Thank you.

MS. BROWN: We have a presentation. If we could put it up on the screen, please. Okay.

Good afternoon, Chairman Elliott and Vice Chairman Begeman. My name is Cressie Brown and I am Vice President, Service Design for CSX Transportation. I'm glad to see you again following my recent appearance at the subject of forced switching.

I appreciate the opportunity to provide information about the specific impact of the 2013/2014 winter, a season of near historic proportions in terms of the duration and the depth of frigid temperatures, accumulations of snow and ice and their impact on transportation systems, production lines and the economy in general.

Over the next few minutes, I'll describe the impact and its consequences, CSX's response and the recovery and our ability to return to the high service levels our customers expect.

Turning to Slide 2, CSX's entire system was affected by the winter weather, but none worse than our Northeastern and Midwestern regions.

The effects were acutely felt in major population and commercial areas including New York City that was inundated with snow, the second most in history, and temperatures that fell to lows not seen since 1871.

Chicago had approximately seven feet of snow, a near record, and laid claim to one of the coldest winters on record.

The effects of the challenging weather even extended well into the South and across our network as resources were consumed with slower velocity and increasing congestion.

The winter storms were unrelenting, coming one after the other, leaving little time for recovery.

Locomotive reliability was impacted, signal systems failed as commercial power went down and even with all of the advances in rail technology steel rail was still subject to failure under extreme temperatures.

As I testified recently, rail operations hinge on carefully planned movements and interchanges with other carriers and nowhere does more of that take place than in Chicago.

So just as highways were made impassable and airlines fell behind on scheduled arrivals and departures, the nation's railroads struggled. Train movements slowed, interchanges became less predictable and our resources became stressed.

These are not excuses but, rather, facts and we regret that our customers were not always served reliably and consistently.

Unfortunately some production lines were stopped temporarily as a result of these challenges. Despite that, our customers were patient and understood the weather impacts because they too were often struggling.

Together we were facing extreme challenges and our customers knew we were making every effort to serve them where we could and to communicate where we couldn't.

Let me provide some specifics in how CSX dealt with the weather across our network and in Chicago where traffic volume is greater than anywhere else in North America.

The Board is well aware of the industry's multi-year CREATE initiative, you've just heard about that as well, a public/private partnership to improve the flow of freight and passenger trains through the metropolitan area and to reduce the impact on rail traffic and on its citizens.

CSX and other carriers are constantly working to ensure that infrastructure and operations in Chicago and elsewhere support fluid train movements.

Turning to Chicago on Slide 3, as Jeff Harris very well explained, the Chicago

Terminal Coordination Office stepped up its daily operations.

Coordination among the carriers were enhanced at the local level, terminal level, division level, network level and at the executive level.

CSX, as did every other rail carrier, took additional actions, some of which are illustrated on the next couple of slides.

So if you look on Slide 4, we repositioned locomotives from the South to the North. We also took units out of storage. We purchased additional locomotives and we leased all available locomotives to supplement our fleet.

On Slide 5, we deployed employees as well, including our Vice President of the Northern Region to Chicago. Employees were also dispatched to Willard, Ohio and Indianapolis, among many other locations.

On Slide 6, we shifted trains for

interchange with Western carriers from Chicago to St. Louis and Memphis and increased blocking at other terminals across our network to reduce the workload in Chicago.

On Slide 7, 24 by 7 engineering desks were established on the divisions to quickly address issues and we pre-positioned signal and engineering crews and equipment ranging from 600 generators to proper safety protective equipment so that we could promptly address problems.

Throughout this winter we have maintained a constant focus at all levels to service our customers to the best of our ability.

We also heightened communication with our customers and some examples can be seen on Slide 8.

We leveraged established lines of communication that have been enhanced over the past few years as a result of suggestions from our Customer Advisory Councils.

With the onset of the winter storms, we increased the frequency of those communications and took every opportunity to make them useful to our customers with respect to their planning.

As I testified recently, our customers tell us that they appreciate a commitment to serving them in established windows, but they also need to know when we won't be able to meet those commitments.

We communicated regularly with our customers on the winter service issues including frequent advisories that updated them on the state of the Chicago terminal and our recovery tactics of putting additional resources and personnel up against the most impacted areas.

Turning to Slide 9, our sales and marketing team, along with personnel from our 24/7 Customer Service Center, supplemented those advisories with telephone calls, emails and some of the tools that you see here to keep individual customers current with their shipment schedules and expectations.

At the same time, we are already planning how we can better cope with the next storm of the century.

As the Board is aware, CSX acquired a new route through Chicago called the Elsdon Subdivision. As you know, and very well know, due to a number of engineering and operational considerations, the Elsdon Subdivision was not yet ready to handle the higher volumes we expect to direct over it.

But I can tell you today that we are on schedule to invest extensively in upgrading the Elsdon Subdivision in 2014 which will create a higher volume alternate route through Chicago that will greatly help with fluidity going forward, minimizing the public inconveniences of the increased train traffic as well.

In summary, on Slide 10, CSX's operation is recovering, thanks primarily to the extraordinary efforts of our 30,000 employees.

Our front-line union and management employees responded heroically, putting aside their personal challenges and reporting to work and working safely most importantly.

They labored in extreme conditions to keep locomotives moving, to repair signals and track and to serve customers to the best of their ability.

They found ways to get to their work locations to ensure we sustained rail operations and we are very grateful for their dedication.

Operations are beginning to normalize, traffic is picking up and our customers' car orders have been increasing steadily for several weeks.

CSX has deployed every resource available at significant cost to safely restore service because, as our core value states, it starts with the customer.

Preserving high customer service levels, satisfaction levels that we have earned over the past few years is critical to our business.

We are committed to a full and sustained recovery and continue to see improvements across our system, but a sustained recovery takes time.

Residual effects of the winter are also likely, growing demand and some flooding from snow melt's possible and this could have a temporary but most likely isolated effect on some aspects of our recovery.

And since the issue was raised this morning by various shippers and interest groups, I'd like to conclude by referencing my prior testimony, testimony about the devastating effects of NITL's proposal for forced switching.

And the winter storms demonstrate the consequences that occur when normal traffic flows are interrupted and when planned operations are upset. Resource planning becomes difficult, if not impossible, and customer service suffers.

I would be remiss also if I didn't ask you to keep in mind the parallel between the NITL proposal and what we just experienced as a result of the winter storms, our concern that the proposal could create a kind of perpetual winter storm on the rail network.

Thank you again for this opportunity and let me reiterate that recovery is well underway and we are committed to continuing our recovery in a sustained manner. Thank you.

CHAIRMAN ELLIOTT: Thank you. Mr. Bailey.

MR. BAILEY: As they load my slides, Chairman Elliott and Vice Chairman Begeman, as you may recall just a couple weeks ago, my name is Rush Bailey and I'm Assistant Vice President of Service Management for

Norfolk Southern.

After two years of very strong service performance at Norfolk Southern, the recent shocks from the severe winter weather and the resulting reduction in network velocity have had a significant impact on service in the first quarter.

However, Norfolk Southern is now improving and expects further improvement, but before we get into those details and reasons, I'd like to just take a few minutes to recap the winter weather, at least one more time, right?

The record-setting winter has been well-covered by the media, a seemingly relentless series of storms that tracked across the country and hit our service area particularly hard.

We saw an unprecedented number of storms moving across our service areas, setting temperature records and dumping snow and ice over nearly all of our service region.

It's not just a Norfolk Southern story, not just a railroad story. Nearly every mode of transportation has been affected with disruptions.

On the next slide, the operational impacts of this type of weather are also pretty well-known and others have covered them so I won't go into the level of detail that's shown in this slide.

But, first, it almost goes without saying that it's hard to get crews to trains when states have placed a state of emergency condition on their roads and when taxi services have been banned from highways.

And employees who do make it to work have to work in very extreme conditions, cognizant of increased risk of exposure and other safety hazards so productivity is reduced.

Second, much of the equipment we use, from locomotives to signal system and switches, is also impacted by weather, particularly extreme temperatures. Locomotives were hit particularly hard this winter with all the snow and extreme cold.

Third, cold temperatures also affect air brake systems on trains, requiring us to reduce train length. Yard operations are also effected due to the impact on air-lines operating retarders at our comp terminals.

And, fourth, because we operate in a broader network, the impacts on other railroads also affect us.

At major interchanges we saw congestion because other carriers were not accepting trains and, as a result, much of our sliding capacity was consumed with trains held out on line of road making dispatch operations very difficult.

Today I'm representing the tens of thousands of NS employees who've been working hard to improve service. They cannot be here in person but a few of them can describe what they've faced and why we are now so focused.

(Video begin)

MALE PARTICIPANT: 2013 was a banner year for Norfolk Southern and most of the railroads in North America. We had improved velocities, we had increased car counts and we had great customer service.

The winter months, though, coming into 2014 have thrown us some challenges. The severe cold temperatures that we have had have affected train lengths. We've had to run much shorter trains with many fewer cars.

And any time you have severely cold temperatures, that affects equipment. That affects our infrastructure. Our employees have had a hard time getting to work. We're digging out of that.

Moving forward into 2014, our employees are working just as hard as ever. They're focused on customer service, they're focused on increasing velocity and they're focused on making Norfolk Southern a better railroad.

So here are some of my coworkers from other areas within our company to talk about why service matters.

MALE PARTICIPANT: Pass another yard to the 56.

MALE PARTICIPANT: 56.

MALE PARTICIPANT: Moving to the 307.

MALE PARTICIPANT: This has been a rough February along with January, but the weather with the coordination between the MOW department to get the tracks and the switches cleared up and get the products in the yard, humped and back out of the yard has been a challenge.

When you get snow, you can't throw the switches. Trains can't move through the switches so it's been a struggle. This has been years of experience and years of working together hand-in-hand that have made us come through the hard times.

We got good people working here. We got it figured out. We've been handled through this before. We can do it again.

This is what we do. We don't want the work to go away. We want the business to keep coming so we'll do what we have to do to get the product in and product out.

MALE PARTICIPANT: Been real cold, a lot of broken rails, frozen switches in the yard.

Two months ago when we had the subzero weather, I have 35 years out here and I haven't never been so cold in my life as far as trying to get this rail back here. That's the whole outlook of coming to work, is making it safe for trains and keeping them moving.

MALE PARTICIPANT: We in engineering, we're working hard. We're coming back strong. The weather's going to change and get the trains back to their scheduled speeds and keep Norfolk Southern at the top where they belong.

MALE PARTICIPANT: I believe our service in 2013 was second to none. Winter came along and it altered the way we had to go about our work and do it safely.

Customer service is at the top of our list for one reason, it's our mere existence on the property to do a job and do it right and make sure it's in a timely, safe manner.

(Video end)

MR. BAILEY: Thank you. To give you a better picture of the effects of this winter, as my colleagues just described here, here's a graph of line haul miles per day since 2009.

You might recall from my recent testimony in E.P. 711 that the line haul miles per day is a broader measure that we use to gauge network velocity.

It basically is the average number of miles that a shipment would be expected to travel in a 24-hour period. It combines over-the-road time, terminal time, time in sidings, crew changes, basically all the time associated with movement of a shipment.

You see the decline in velocity through 2010 and 2011 following the impact of the Great Recession and then the very high and very sustained performance of 2012 and 2013.

Finally you see the impact of severe weather and the toll on operations at the far right of the chart.

So why does it matter? The faster NS can turn its assets, its locomotives, railcars, crews, terminals, the more efficient our operations.

In short, velocity drives service and drives service for our customers and that's why we are so focused on getting service back to higher sustained levels as we've seen over the last couple years or better.

On the next slide the impact of weather on our locomotive fleet has been particularly difficult. Freeze damage, grounding of traction motors and other weather-related issues pushed the bad order ratio to unprecedented levels, which is shown here by the green line.

Our expected bad order ratio, and basically that's the number of locomotives that are out of service due to mechanical issues or failures, normally runs a little higher in the winter months, historically about seven percent. In February it averaged over ten percent and at times ran over 11 percent.

Combined with the impact of reduced network velocity, which in itself requires more locomotives to move the same amount of freight, locomotive availability has been the most critical factor impacting operations this winter.

With similar issues on other carriers, suppliers of locomotive parts have been unable to fully meet demand. We've seen shortages of air compressors, turbo charges, water pumps and HVAC systems. And with truck deliveries also affected, deliveries of materials have been hindered at times.

So this has been our first priority in restoration of network velocity. In mid-December we pulled out our storage fleet from storage and into service.

The storage fleet, however, is designed for short-term events and therefore was not sufficient to address the series of events of this magnitude.

We took an all hands on deck approach, employing our management personnel to shops across the system including those normally used for training our new mechanical employees at our Training Center in McDonough, Georgia.

The process has been very difficult but we started seeing improvements in mid-March with the bad order locomotive counts declining.

In the most recent period, we're now seeing bad order ratio in the normal range for winter and expect it to continue to drop over the coming weeks.

On the next slide, this chart shows the number of trains held at origin terminal awaiting power assignment. That's shown in red. It also shows the number of hours held. That's shown in blue.

You can see the increase over the winter and then the rapid improvements in the last couple weeks as the bad order rate improves and more locomotives are in service.

As velocity and power availability improve and trains get more back to schedule, we're starting to see a decline in the number of trains held for power as well as a decline in the number of hours held and this should drive continued reductions in terminal dwell.

With improving locomotive availability, road trains are getting back to schedule, a critical component of efficient scheduled operations.

And as they do, we're seeing corresponding improvements in train speed. Train speed has been improving since mid-February, up about six percent.

Even with conditions over this past winter, train speed was better than 2010 and 2011 but still well below the record performance levels we saw in 2012 and 2013.

But recent trends are encouraging and improvement should continue with more locomotives now in service.

This chart depicts the number of road train recrews. A recrew occurs when a train does not reach its scheduled crew change point or train destination before the crew runs out of service hours and the train then has to be recrewed.

With improving train speeds, trains are getting over the road more to schedule and so the number of trains that have to be recrewed has come down substantially in the last few weeks.

Terminal dwell is the average number of hours a shipment -- may I continue? Yes. Terminal dwell is the average hours a shipment spends in a terminal awaiting connections to an outbound movement on its next scheduled train.

We also see that it's beginning to come down, down nearly 14 percent since mid-February. Again, it's not where we saw it last year but it's clearly tracking in the right direction.

On the next slide, improving velocity and train performance is also driving reductions in loaded shipment delays, down over 50 percent since mid-February.

This and all the improvements we're seeing are the result of a lot of hard work and commitment to providing optimal service levels by our transportation and mechanical forces.

These are leading indicators of

improving velocity and network fluidity and we are very encouraged to see these improvements, and the next slide.

These improvements are coming concurrently with increasing volume, which is noted in black on this graph and shown relative to prior year's volume.

No doubt that some of this is likely to be the result of pent-up demand due to earlier winter storms but we are seeing volume increases across almost all sectors of our business.

The key point here is that we're seeing these improvements in velocity and service concurrent with higher volumes, which is just further evidence of improving velocity, fluidity and service.

Predictions on a timeline for a return to the high service levels we've seen over the last two years would be difficult.

The nature of network operations and the fact that much of our traffic interchanges with other carriers means that there may be factors that are simply outside our control and could hinder improvements.

But as you heard from our employees, we're committed and fully understand that our success depends on restoring full confidence in our service. Thank you.

MR. HALEY: I have some slides here as well, please. Great.

Good afternoon. Thank you for the opportunity to speak before you on behalf of Union Pacific. My name's Tom Haley. I'm Assistant Vice President of UPs Network and Capital Planning Group.

You've heard plenty today about this winter's weather challenges. We believe it's been the worst winter in more than 30 years.

As you well know, our production line is outdoors and fully exposed. The effects on our employees working in conditions like those shown here slowed mobility and production for Union Pacific as well.

Severe cold also reduces train sizes because of the inability to maintain air pressure, causing the need to run more trains to move a given amount of freight.

UP was most impacted in the eastern third of its network. Because we're a network, ripples have been felt across our territory and we've been affected by issues on the other railroads, just as our challenges have had some impact on them.

We've also been blessed with strong demand, which we love. You can see some healthy increases here in the traffic we're moving.

Especially strong for us are grain, ethanol and frac sand, all exceeding forecasts of just a few weeks ago. Coal also continues to exceed forecast, driven at least in part by the severely cold weather.

Our objective is to grow with our

customers and to provide the very best service product.

I'd like to brief you on UP's actions to minimize and contain the impact in our network and to restore normal service levels.

I'll start with actions we've taken to coordinate with our customers. We've redoubled our efforts to communicate with our customers.

We've done regular customer updates on our website and developed communication materials to conduct face-to-face reviews with our customers.

We reinforced our discipline process through our National Customer Service Center to resolve service issues. We've added staffing to support this and developed stronger internal processes to better coordinate between customers, our NCSC, the command centers we established in the field and our operating team.

We want to hear from our customers. We want to know what their service issues are. That enables us to better focus our efforts to improve.

We know we've had issues and have issues. We greatly appreciate the support and cooperation our customers have shown us.

Operationally, UP has applied tremendous resources to overcome severe weather and the challenges in the broader industry.

In the upper left on this chart is the increase in freight car inventory on UP since the first polar vortex in early January.

Local delivery is traffic moving to online customers, while interchange pipeline is traffic on UP moving to other railroads through interchange.

About half the increase is volume driven but the other half is from slower velocity in our network plus the backlog moving through gateways. We've stabilized inventory and made some progress bringing it down.

Our focus has been on running our service plan, which will help make our inventory current. It begins and ends with spotting and pulling the customer and we're making every effort to improve that performance.

One of UP's key strategies shown in the lower left is to provide surge capacity. Our resource additions have been quite significant as shown on the right side of this chart.

We've had an increase of 550 active TE&Y crews in just two months. Aiding this flexibility is our alternate work or AWTS program which keeps some furloughed employees trained and ready by continuing their benefits and providing part-time pay.

As you can see here, we've also increased our active locomotive fleet by 600 units since fall to almost 7,500. We've added

57 managers and we've brought 11,800 more freight cars into the UP fleet to serve our customers.

Moving on to Chicago and the upper Midwest, the gray box on the left outlines our key actions. UP's Chicago area resource additions are shown on the right. Time won't allow a detailed discussion, but our resource actions cover management, crews and locomotives.

On the crew side, I'd like to call out the dedication of our employees, like the person in the picture equipped to do battle with subzero weather, and the crafts, all of whom have done awesome work and stayed safe throughout these challenges.

We have, of course, fully participated in CTCO initiatives. We've used our network and worked with the other railroads to ease demand on the Chicago area by blocking traffic upstream to avoid switching in Chicago and by shifting traffic to other gateways.

Union Pacific's actions in the upper Midwest, hard hit by the severe winter, are similarly structured as shown in the gray box.

We've added major surge resources and management crews and locomotives and, again, our employees have made tremendous efforts to keep the railroad moving under very tough conditions like the picture on the left.

We're using the full capability of the UP network to support and improve the upper Midwest. We've supplemented switching support in other yards in the area and as far away as Kansas, Texas and Arkansas.

Which brings us to capital investment. Briefly, UP is continuing its robust infrastructure capacity program. We will invest $680 million in 2014 just on facility expansion projects like those shown on the map.

To support accelerated growth in

north/south traffic, $290 million of that will be on our Southern region. Our program for the North is more than $140 million, including pulling ahead $40 million of 2015 projects into 2014 with a number of great projects in the upper Midwest.

To wrap up, as I've outlined, UP has solid actions and substantial resources underway in all these areas. We certainly know we have opportunity for improvement.

We are applying these actions and are learning to be more effective for our customers. Our outlook is for steady improvement. Thank you again for this opportunity to speak with you.

CHAIRMAN ELLIOTT: Thank you.

VICE CHAIRMAN BEGEMAN: Thank you all very much. Mr. Harris, Mr. Creel gave a guesstimate that for the Chicago area, that things on his railroad would be back to normal in, I believe he said approximately six weeks.

Could you start with your estimate

on where things are for Chicago getting back to normal? And then maybe each of you could talk about how that will ripple through your own system.

Your customers have not been contacting us to the degree the other carriers' have. I realize there probably are pockets of pain as you have already acknowledged but, thank you for what you've been able to do. Keep it up, but give us an understanding of what to expect for at least the short-term future.

MR. HARRIS: I can take a shot here. Understand that Chicago is a unique segment of a lot of railroads in one place, none of which are controlled by the other.

The resumption of normalcy is going to happen at different stages at different railroads based on their traffic flows and how they handle things into Chicago.

Our goal in Chicago is to keep the fluidity there to allow the railroads to recover. Even though some of the railroads have recovered to a large degree better than others, until we're all recovered we're not recovered.

So we'll be doing what we're doing in greater depth to help our partners get through the recovery process. When is that going to happen and how long it's going to take us? I don't know I could speak to that. I see it coming.

VICE CHAIRMAN BEGEMAN: Okay.

MR. LIEPELT: I guess on the CN side, our dependency in Chicago is less than probably other Class Is. We have our own major switching yard. We rely very little on the BRC or the IHB to do any work for us.

So currently we're where we need to be in Chicago. We're not behind in Chicago. We're still behind in getting cars to Chicago.

The flow that some people mentioned earlier, the backlog of traffic is still coming and it'll continue to come and we're working our way through that.

But really our dependency is on ourselves and that would be Kirk Yard which is in Gary, Indiana. That's our major hump yard and there we are current and switching cars on a regular basis like we should be, so.

MS. BROWN: We're no different than the other carriers and we do have our investments in the Elsdon Sub and as soon as we can get that open, and up and running, I think that will probably help all of us.

We are still working with carriers to divert traffic away from Chicago as necessary so that we have a better chance of recovery there.

So wherever we can make accommodations but we do feel very good that, you know, we are all making progress. I think many of our charts look like the ones that Rush put up and, you know, we're all seeing good trends and good continuous improvement.

You know, we kind of hit a bottom in February-ish time frame and it's been a continuous improvement trend since then.

So, you know, we are all focused on the recovery and expect that that trend will continue and that we will week over week, you know, continue to make improvements in our sustained, you know, trajectory and sustained recovery.

MR. BAILEY: Similarly we are very much encouraged by some of the sort of leading indicators that we're seeing in our network and we think that the speed of the network is improving and will continue to improve.

Chicago may continue to be an issue for us. I think at Norfolk Southern we've done a good job pulling traffic away from Chicago but we have had to hold trains going into Chicago.

So, you know, as someone said earlier, the recovery of the entire industry is important to make that interchange work effectively and it could potentially hinder the recovery of traffic that moves through that area if it's slow to recover.

MR. HALEY: Yes, I would echo what my fellow panelists have said here. The actions I outlined will drive improvement. We are seeing our metrics, our leading indicators improving.

There is dependency in the rail network so we're all in this together to some degree, but in a backlog to work off, but we see a path for steady improvement here.

VICE CHAIRMAN BEGEMAN: I don't know that at the moment I have any more questions.

You know, one of the themes that the previous shipper panels have asked of the Board is to continue monitoring. They've said a lot more than that, but that is one of the things they have said, and I hope that you will consider that a directive for yourselves as well.

I would like to avoid issuing emergency service order. I hope it doesn't get to that point. I realize some folks may think we're already at that point. But I think you said it, everyone's sort of in this together.

CHAIRMAN ELLIOTT: Yes, just to follow up on the Chicago conversation because it seems to be a large part of the focus here, Mr. Creel earlier mentioned that he was going to escalate this and work with the other railroads, possibly to run trains around Chicago. I think Mr. Bailey just referred to that.

Do you see that as a possibility or is everything that could be done to run stuff outside of Chicago, is that already being done?

MR. LIEPELT: I don't know if, and Mr. Creel can speak for it. I don't think he meant trains as much as the traffic, single boxcars, routing protocol, which would mean a car can be delivered somewhere outside of Chicago to another carrier. Connecting carrier could be done somewhere else. They'll keep it out of Chicago. That wouldn't be so much solid, full trains as much as individual boxcars, customer specific.

MS. BROWN: Sorry. I'm sorry. I would just add that, yes, I think we have all taken a hard look because Chicago is critical for the fluidity of all of us.

And Tom made a great point. We're in this together so we all continuously talk about things we can do in our own networks, deeper in our networks or at alternate gateways.

But it does go back to the discussion we had at the last hearing, which is those have limited capacity, resources and ability to handle flexing those types of volumes to other locations, right? They're not staffed. We don't have the capacity so it's a challenge.

While we are all looking at everything that we can possibly do, I think to look at alternatives you're somewhat limited in those alternatives, right? We are investing in Chicago because that is a great interchange location for the railroads.

We, you know, are trying to advance the CREATE projects which will help tremendously, right? What a great industry initiative and good planning and good foresight on the people that set that up.

You know, so we're trying to execute on those plans and I don't know that you can ever prepare for this kind of exceptional winter, you know, and fully handle it when it happens.

MR. BAILEY: Actually for us I think some of those conversations have already started.

You know, I think all of us are interested in finding alternatives. I mean, any time you go through something like this you kind of look back and think, okay, how could we have done it differently?

And you can probably tell from some of the information I presented here and when I also presented in E.P. 711, I'm kind of a geeky, analytical guy among us.

But when we study costs, many of our costs are time based. They're not mileage based, or at least they're not predominantly mileage based. And so if you can take time out of that cycle, it's a big benefit to the railroad.

So obviously if we've got a choke point anywhere on the system, if you can avoid the choke point and reduce the time in the cycle, there are big benefits to the carriers in that.

CHAIRMAN ELLIOTT: One other question. Earlier, much earlier, Amtrak was testifying and they did show some numbers that seemed somewhat alarming.

First, they showed the increasing

freight interference since the metrics and standards case appeared to go up significantly.

And then also I don't know if the on-time performance numbers that he showed went downward immediately after that case. It seemed that they went downward afterwards.

Do you think there is any veracity to correlating between the decision in the on-time performance and the freight interference numbers?

Or do you see it more as an issue of the weather that has been going on for the past several months and that we may see it, or hopefully see it go up as we go forward?

MR. BAILEY: In Norfolk Southern we see it as weather related. I mean, most of the Amtrak trains where we're having issues are those that are touching Chicago.

A lot of it's congestion related and just trying to get through there and so I think, you know, as conditions improve, you'll see improvement there.

You know, he made the comment about, you know, he thought that, you know, maybe carriers weren't giving preferential treatment to Amtrak.

I would disagree with him strongly there. You know, the data he acknowledged is coming from the conductors and it's their assessment of what the cause is.

The problem with that system, and it's similar to a system that we had in place years ago, you're depending on input from people. All they see is what they see.

What they don't understand is, yes, there may be a train ahead but that train may be delayed because it's being held out of Chicago or some other issue so it doesn't get to root cause.

I think if there were more in-depth analysis of it, you'd find that the root cause really is weather related.

MR. HALEY: I agree with that

position.

MS. BROWN: There are so many dimensions to that question that it is probably not feasible to get through it here. You know, we would be more than willing to come and discuss it in more depth.

But I do, while being very respectful to our obligations to Amtrak and we're very clear about what those are, our belief is the right measurement is our contract on time performance.

We have an agreement with Amtrak that governs how we measure performance and it's based on things and holding us accountable for things that we, as the host railroad, control.

When Amtrak uses the delays per 10,000 train mile measure, which is the one that all of us together challenged and was ruled unconstitutional, they are measuring totally irrelevant and not in connection to the schedule that the public sees so it's pure delays.

You can be on time and maybe you have seen, you know, some other website and some other measures. You can be on time and you will be on time and have freight train interference because you do need to meet and pass trains. That is built into the schedule and that's part of the schedule.

So while Amtrak will post delays and show freight train interference and significantly high numbers that exceeded the threshold that was established in PRIIA, your train to your customers can be on time.

So, to us, the appropriate measure is you're trying to set an expectation with the ridership for Amtrak to get them to their destination on time and that should be the benchmark of the measurement, right?

I mean, it's irrelevant to me whatever delays the conductor categorized if the customer got there on time. I don't think they are concerned at that point.

It's important for root cause analysis and for continuously us working together to try and improve Amtrak performance.

But I think it's a little bit of a, like I said, trying to be very respectful to Amtrak, it's a little bit misleading about the freight railroad performance.

You know, we look at contract performance, CSX's. You may have received that chart. Contract performance has been steady for a number of years, very consistent. And the anomaly and the exception is this winter and we have degraded, absolutely.

We are performing very consistently to how Amtrak is performing in their own northeast corridor. Our performance numbers are almost equivalent, the freight railroad's performance of Amtrak versus their own performance.

CHAIRMAN ELLIOTT: Thank you.

MS. BROWN: But it's measured

differently and I think that's a significant issue for consideration.

CHAIRMAN ELLIOTT: Mr. Harris, do you have something to add? I'm sorry.

MR. LIEPELT: I don't believe I could say it any better than that. I'll leave it at that.

CHAIRMAN ELLIOTT: All right.

MR. HARRIS: Just a couple quick numbers. As I mentioned earlier, within Chicago they run 760 passenger trains a day. Now, many of those are Metra but the rest of them are Amtrak's and they operate on what we call shared corridors with the freights.

And the percentage of on-time performance during the worst part of the winter for Metra this year was 85.5 percent in January, 89.3 percent in February and 94.7 percent in March. Now, granted, in 2013 they were in the 96 to 97 to 98 percent range, but that's the effect of the winter.

And compounding that is all of the

freight folks are rushing to get their trains to where they're supposed to go and they get to a certain point and the clock strikes 6:00 a.m. We stop for rush hour for two hours or the same thing going out.

So we ran passenger trains on a priority to the detriment many times of the freight operation in Chicago and that's a good example. I mean, granted, their performance is not what they'd like, but it's pretty darn good.

CHAIRMAN ELLIOTT: Thank you. Also before the panel's excused, I do want to thank those of you who have been participating in the Rail Customer and Public Assistance Program.

I know Union Pacific has done some exceptional work in helping out the Board and we do appreciate everything that you do when there are some communication issues and then they come to us and then we go to you and then you help us work through it.

We do appreciate greatly that and I know you will continue to do what you've been doing in the past and that is greatly appreciated so thank you very much for that.

So you are excused. Thank you very much for your testimony. It's very helpful.

CHAIRMAN ELLIOTT: All right, why don't we get going here with Panel Number VI and we'll begin with Mr. Berthold.

MR. BERTHOLD: Thank you for the opportunity to speak on behalf of the North Central Bean Dealers Association and the Northarvest Bean Growers Association.

The North Central Bean Dealers is a trade organization representing 51 dry bean processing facilities in North Dakota, Minnesota, South Dakota and Wisconsin.

Our primary function is to collect the production from area growers and process that product for domestic and international markets.

We essentially take field run product, convert it to a food grade product and are our raw material supplier to canners, packagers and consumers worldwide.

The Northarvest Bean Growers Association is a farm producer organization that represents over 2,400 growers from the same geographical region.

Dry edible beans are a true specialty crop that are grown in concentrated areas throughout the country.

Of the 1.4 million acres grown annually in the United States, approximately 45 percent are produced in North Dakota, Minnesota, South Dakota and Wisconsin.

These numbers are even further concentrated when broken down by class of bean.

Our region produces 65 percent of the country's pinto beans, 70 percent of the navy beans and 45 percent of black beans, the top three most widely consumed beans in the

United States. We also account for 85 percent of the dark red kidney bean production.

Our production is harvested in the fall and nearly 100 percent of the crop is delivered to our processing facilities directly from the field.

There is very little farm storage and this is due primarily to limit the amount of handling which can cause damage to the bean.

Once the crop is delivered to the processing plant, it is segregated by quality parameters specific to what use the beans will be ultimately used for.

The quality specifications of a bean used for a canning process are different than one used for a packaging application.

Dry beans are perishable and have a limited shelf life and that clock starts ticking once the crop reaches maturity. A bean that is suitable for packaging at harvest may not be nine months later due to color degradation.

We ship to our customers continuously throughout the year to meet their production demands and capacity. Approximately 60 percent of our annual production is shipped by rail in one form or another.

Given our geographic location and very little bulk storage capacity at the destinations that we ship to, consistent, reliable, single-car transportation is vital to our industry.

Reliable service is equally important to domestic and international food programs, school lunch programs, WIC, Food for Peace, World Food Program and the many other markets that we serve.

Car deliveries 90 days late are common at this point in time and are having an immediate and devastating effect on our industry.

Annual dry bean production tends

to follow yearly supply and stocks on hand factors, much like any other commodity that's grown here.

However, our market very rarely holds a greater than 15 percent stocks-to-use ratio due to our limited shelf life. When stocks-to-use get greater than this, production drops to bring supply and demand back into balance. Our demand is fairly stable year in and year out.

As mentioned earlier, dry beans are a specialty crop and fall outside of the Farm Bill for that reason. There is no such thing as loan value for dry edible beans.

We are seeing an influence of the current rail transportation issues on planting decisions for the 2014 crop here.

Dry edible beans provide a low-cost, nutritional protein source for consumers worldwide. Our products are shelf stable for up to a year and are a staple in many ethnic and regional dishes.

We understand that we are a small fish in a very, very big pond but dry beans are very important to our local farm and regional economies.

A reliable and efficient single car rail system is crucial to maintaining and growing this important industry.

I would also like to make note that we've had discussions with BNSF. I visited headquarters. BNSF has been very forthright, open and acknowledge the issue. They have also communicated well their plan to fix it.

We sincerely hope they are successful in their efforts. However, our greatest concern is what if they are not? Thank you for the opportunity to address the Board.

MR. SCHANILEC: Chairman, Vice Chairman, my name is Brian Schanilec. I'm from Forest River, North Dakota. I'm a fifth-generation farmer and a representative of the North Central Bean Dealers Association and the Northarvest Bean Growers Association.

My great-great-grandfather turned sod in North Dakota in the late 1800s. Being a fifth-generation farmer, the railroad crisis in North Dakota is the most threatening event our five generations of farming has ever experienced.

We have crops we cannot sell. We have discounts that are historical. With the current trends, we don't need to plant half of our acres in 2014 for we cannot get our crop to market.

We are threatened with food safety, food security and national security. Our nation's bread basket, primarily in the Midwest, are at the biggest crossroads in history.

We cannot secure enough fertilizer to plant our crops this year. What does that mean to our farmer group?

The basis for our commodities,

which is the difference between the futures price and the cash price, the margins are at all-time highs.

Usually the basis -- I'll pick a crop as corn to be more explicit. The basis for corn is usually a 30/40 cents difference between the futures market and the cash market.

Today in Buxton, North Dakota, the basis is at $1.24 a bushel, leaving the growers to lose anywhere from 70 to 90 cents a bushel. That is costing us millions of dollars.

Today three of us farmers rode in a cab ride to this hearing. We asked each other what is the basis costing our organization? Just between three of us growers, we are losing in today's market on basis $1.1 million.

One of our colleagues tried selling wheat yesterday in North Dakota to a local elevator. The local elevator told him we can't offer you a price. You can maybe haul it in in July but we cannot offer you a price.

We, as farmers, bean dealers, growers, we're asking for some resolution for the ag industry. If three of us farmers are losing $1.1 million in basis in today's market, what is that doing to our economy?

I'm a bib-overall grass-roots farmer from rural North Dakota. I am pleading for help in getting our ag products to market and to save our farms from insolvency. Thank you very much for your time and this opportunity.

CHAIRMAN ELLIOTT: Thank you. Mr. Brandt.

MR. BRANDT: Good afternoon, Chairman Elliott and Vice Chairman Begeman. Thank you for holding this important meeting and also thanks for sending Tom Brugman to North Dakota on March 26 to hear from shippers.

My name is Keith Brandt. I'm General Manager of Plains Grain & Agronomy at Enderlin, North Dakota.

I'm also here on behalf, representing the North Dakota Grain Dealers Association, a 100-year-old association representing the interests of hundreds of grain elevators of all sizes across our state.

I am a past president of the North Dakota's Grain Dealers Association and currently serve on this Transportation Committee.

North Dakota Grain Dealers Association has appeared before this Board on numerous occasions regarding rail service, mergers, fuel charges and the common carrier obligation to cite a few.

Past STB Chairwoman Morgan and past Chairmen Mulvey, Nottingham, Buttrey and Nober who came to Enderlin when he was in North Dakota and we gave him a ride on a combine have been guests of our state. In other words, our state association has been heavily involved.

PGA is located in southeastern North Dakota on the main line of the Canadian Pacific Railroad with the shuttle loading capacity there.

We have a branch location which can load up to 27 cars on the Red River Valley and Western Railroad also. Within 30 to 50 miles, there are six BNSF shuttle-loading elevators that surround us.

PGA was formed to accommodate the request of North Dakota's two Class I railroads, Canadian Pacific and Burlington Northern, for fast shuttle loading to receive priority service.

Comments today will center around the serious service issues. Cycle times on shuttles have fallen from two to two and a half times per month to half of that at best.

For the record, PGA is waiting for a February 17th shuttle to be filled and a

February 4th singles order to be filled. There are orders on either railroad for various shipment sizes that are far older than these. The smaller ones lag the most.

Lack of service by the CP for PGA goes back a few years. This is not an immediate thing. We first started loading out at our new shuttle loading facility in 2003.

We peaked at loading just over 6,100 cars during the 2008-2009 crop year. We have never gotten back to that number. The CP is limiting our growth and expansion.

To receive grain from our customers in spite of poor service by the CP, we take accommodations to service our customers by trucking grain to competing railroads or take excessive risk to pile grain in outside locations. This increases expense and reduces profit.

This past harvest to accommodate our customers again we loaded over 300 cars of corn on the Red River Valley and Western that went to an ethanol plant, ironically located on the Canadian Pacific Railroad.

This plant prefers the Red River Valley and Western to deliver corn to them because of their timely and consistent service.

Because of untimely and inconsistent movement on the CP, we are constantly faced with discounted bids from buyers because of their inconsistent service.

Oftentimes trains and other shipment sizes on the CP sit for two to three weeks after billing before being pulled away. While the CP doesn't have sufficient power to move its own equipment, it leases power to other railroads.

This inconsistent service by the CP is evident across the state over the last ten years with expansion of shuttle loading elevators, fertilizer storage hubs, ethanol plants, propane storage hubs not locating on their railroad.

We continually hear how cold weather affects the movement of rail traffic. In North Dakota there are a few months of every year of cold weather and snow, just a little colder some winters and a little more snow some winters. This has always been the case and railroads should have learned to operate in these conditions.

Much has been said about the development of oil drilling in North Dakota. Many grain elevators believe the increased attention to oil by railroads is at the expense of grain.

Tanker cars clog sidings and yards and move before anything else. This consumes power and crews.

North Dakota Grain Dealers recently sent information to the Office of Compliance and Government Assistant indicating oil on rail had increased sixfold from 2011 to 2013.

While oil has proved to be a good

revenue to both railroads, some balance of railcar movement needs to be maintained. Oil wells don't quit pumping but grain elevators quit dumping.

Many elevators go to extremes to load cars in cold weather and snowstorms. They do this to reduce penalties for shipments already late and to reduce lost revenue from grain that might have gone somewhere else.

But railroads can miss their commitments by weeks and suffer no consequences to their customers.

PGA has a great opportunity to exceed those car loadings of 2008-2009, but we don't believe the plan and we lack confidence that the CP can make it happen.

Communication is lacking greatly with the grain industry. We encourage this Board to hold more events like this in areas of the nation where grain is grown and loaded on rail.

Give the benefit to the rail

customers to speak and place the burden on railroad lobbyists to travel to where their bread is grown and buttered. Thank you.

CHAIRMAN ELLIOTT: Thank you.

MR. BOSSE: Good afternoon, Chairman Elliott, Vice Chairman Begeman. Thank you for the opportunity to testify today on service problems in the United States rail network.

My name is DuWayne Bosse. I'm a fourth-generation South Dakota farmer from Britton, South Dakota. My family farming operation consists of 4,000 acres of crop in Minnesota, North Dakota and South Dakota.

In addition to farming, I also own and operate a commodities brokerage firm that trades commodity futures and options for farmers in the area.

Presently I serve as the Marshall County Farmers Union President and today I am here testifying on behalf of the South Dakota Farmers Union.

The work of South Dakota Farmers Union began in 1914 when farmers united to work together for the good of agricultural producers across our state. Together we continue our work as a nonpartisan, grassroots organization comprised of over 10,000 family farmers and ranchers.

Over the course of our organization's history, we have continually advocated for equitable rail service for agricultural commodities, cooperation between the railway companies, healthy competition among railroads, protecting the shippers from excessive rates and the continued improvement of rail services for our producers.

We appreciate the Surface Transportation Board's recent efforts to closely monitor the rail industry's performance metrics and the service problems occurring in the rail network.

South Dakota Farmers Union was fortunate to meet with officials from your

Office of Public Assistance, Government Affairs and Compliance on Thursday, March 27 in Fargo, North Dakota.

Six South Dakota farmers, including myself, informally met with the representatives from the STB and collectively shared our concerns over the rail service problems in South Dakota.

While we understand the challenges the rail industry faced due to the extreme cold, there is a legitimate concern about how the delays and the lack of services are affecting the agricultural industry.

These rail service problems have already begun to negatively impact our producers and I want to draw your attention to three things that our agriculture producers are most concerned about.

For South Dakota Farmers Union, our first major concern is the fluctuation in the grain commodity markets and how that has impacted and will continue to impact the farmers.

In South Dakota and across our region, the basis has dramatically widened and can be directly attributed to the delay of rail services, lack of availability of railcars and grain not being shipped out of the Midwest.

Basis is the term used to describe the futures price subtracted by the local cash price. It is calculated using a variety of components including storage cost, profit margin for sellers, quality variations from the listed in the futures contract specifications, local market conditions and most importantly transportation costs.

As a farmer, basis is critical in the marketing of crops. It helps to determine when the best time to sell. We use it as a way to hedge, evaluate cash contracts and cash prices at a specific point in time. Basis can determine whether or not we make a profit on our grain.

Typically during the spring the basis narrows and is strengthened, but this year it continues to dramatically widen because of the increased demand for trains to move commodities out of the Midwest.

For an example, in Oakes, North Dakota, where I market most of my grain, the basis at this time last year for corn was minus 35 cents. This year it's minus $1.10. For soybeans last year the basis was minus 65 cents. Today it is minus $1.50. For wheat last year the basis was minus 40 cents. This year it is minus 70 cents.

Taking it one step further and using the basis numbers previously mentioned, I estimated the potential loss in farm income from last year to this year.

Last year North Dakota produced 396 million bushels of corn. Comparing the widening of basis from last year to this year, the resulting corn production would be a $297 million loss in farmer income.

For soybean production the loss in farmer income from last year to this year would be $62 million and in wheat would be $82 million.

For the three major grain commodities that are a combined estimated loss of $441 million in lost farmer income simply from the change in the basis from last year to this year.

The current inability to move agriculture commodities is causing a loss of profit margins from our farmers and has the potential to increase if the problem is not corrected. This is taking money directly out of our farmer's pocket and is of great concern to our members.

Secondly Farmers Union continues to be concerned for the grain facilities in our states.

With the decrease in rail shipments, grain storage facilities, both commercial and private, are currently maxed out of storage options.

Many producers have signed contracts for grain facilities to need to deliver their grain by a set date. Because of the delay in rails, some grain facilities have been forced to dump more grain outside on the ground to make room for the incoming bushels.

With grain continuing to pile up, many facilities are unsure if they will be able to empty their stored grain prior to the upcoming harvest.

If we are fortunate enough to have a large crop this year, the lack of rail service will only further exaggerate the problem.

If a farmer cannot deliver his or her grain to a facility, their most likely options are to store it themselves, pile it on the ground or leave it in the field. Each of these options comes with additional cost and potential for unnecessary monetary losses.

The most precarious situation

would be a farmer having to leave his grain unharvested in the field. Crops that have not been harvested after December 10th of the current calendar year will not receive federal crop insurance. A farmer would no longer be protected for any unforeseeable losses in his unharvested crop.

If the grain facilities are not able to empty their storage capacity before the harvest, the consequences will be devastating to the agriculture industry and our producers.

South Dakota Farmers Union third concern is the impact that the rail services issues are having on value-added agriculture products, including the renewable fuels industry.

At this moment in time, rail services cannot handle value-added agriculture commodities, including ethanol and dried distiller's grains known as DDGS.

The South Dakota ethanol industry

is an integral part of the agriculture economy, having an estimated $3.8 billion economic impact in giving new market opportunities for farmers.

Not only has the renewable fuel industry contributed to South Dakota farmers, it has become an integral component of our livestock industry.

Livestock is raised on an estimated 56 percent of the farms in South Dakota. DDGS is an ethanol byproduct or a low-cost and efficient feed option for these livestock producers. South Dakota's 15 ethanol plants produce more than 3.2 million tons of DDGS for livestock feed each year.

The continued inconsistency of rail service for the ethanol industry is negatively impacting the production of DDGS and may result in livestock industry having to seek alternate and more expensive feed sources.

Unlike grain commodities, the

renewable fuel industry in South Dakota is a constant market. The industry needs to continue to produce, and if it cannot ship ethanol, it has to lower its production capacity.

Even today South Dakota ethanol facilities continue to cut back on production. Some facilities have been trucking more ethanol because it is taking longer to receive empty cars. Additional cars are costing five to six times as much as the regular car rates.

Nationwide the ethanol industry was producing at an average rate of 949,000 barrels per day this past December. By the first week in March of this year, ethanol output had fallen to 869,000 barrels per day due to the lack of rail service, not due to lack of profitability.

The negative impact the rail delays are having on the renewable fuels industry has added to challenges and burdens facing our producers.

These challenges have also increased the price of ethanol to the point where it is no longer competitive in some parts of the country. Consumers who want to purchase ethanol are finding it harder to do so and paying more at the pump.

The impact that the rail services issues are having on value-added agricultural products is very real and of the utmost concern to our members.

While the challenges created by the rail service issues are complex, the solution is fairly clear. We need to collectively find a way to improve rail transportation so that it is consistent and reliable for grain commodities in South Dakota and the Midwest.

In the short term, a concentrated effort must be made to expedite shipping services to our grain facilities and reliable and consistent service is necessary for sustainable renewable energy fuels.

Without resolving these two issues, our farmers will continue to lose profit and be significantly burdened with the brunt of cost associated with the transportation cost.

While a solution is real and possible, the advantage in the production of our grain commodities in the Midwest will place continued stress on our rail network's capacity. A long-term solution is needed to address the growing demand on our rail network.

We are hopeful that STB's efforts will lead to a positive solution and we strongly encourage STB to consider another informal meeting in South Dakota in coming weeks to learn more about the serious problems we are facing in our home state.

South Dakota Farmers Union greatly appreciates and supports the continued investigation and monitoring of this issue. As you can see by those of us who have made the trip from South Dakota, this issue is utmost important to us and we hope a short-term fix is obtained as soon as possible.

On behalf of South Dakota Farmers Union, thank you for the opportunity to speak to you today. I would be happy to answer any questions. Thank you.

CHAIRMAN ELLIOTT: Thank you. Mr. Clemensen.

MR. CLEMENSEN: Good afternoon, Chairman Elliott and Vice Chairman Begeman. My name is Hal Clemensen. I'm a third-generation family farmer from Conde, South Dakota.

I'm also the President of the South Dakota Wheat Growers Board of Directors and I'm speaking today on behalf of myself and Wheat Growers, the largest local, farmer-owned grain and agronomy cooperative in the nation with more than 17,000 owners in North and South Dakota.

Thank you for this opportunity to discuss the growing crisis agriculture is facing over the lack of timely rail service to ship our grain to domestic and foreign markets and bring in needed inputs for spring planting.

I have given the recorder copies of the full version of the prepared statement for the record. In the interest of time I will only read the highlights of that statement.

Wheat Growers annually handles over 160 million bushels of grain and 400,000 tons of fertilizer through our network of grain elevators and agronomy centers.

But our system is now being strangled by a lack of dependable, timely rail service that is creating economic hardship and frustration on the grain side and uncertainty and anxiety on the agronomy side.

This past fall we saw shuttle train cycle times dramatically slow down.

Shuttles we load at harvest generally ship to the Pacific Northwest export market via the BNSF.

A typical cycle time for loading in South Dakota, shipping to the PNW, unloading and then returning to South Dakota for the next loading generally takes 12 to 13 days.

Normally a grain shuttle will load an average of two and a half times per month and cycle back, but this fall the shuttle cycled in an average of 18 to 20 days or 1.5 trips per month.

This increased cycle time effectively reduced the amount of grain shipped by a given shuttle by 40 percent, and our cycle times continue to deteriorate with current cycle times pushed out to 24 days or only 1.3 trips per month.

The amount of time a shuttle sits at one of our facilities waiting on the railroad after being loaded, in 15 hours or less, accounted for most of this delay.

Prior to this year, origin dwell times generally were less than one day. However, we have seen individual shuttles sit at origin for up to ten days. Overall, dwell times have averaged over five days.

Because of the railroads' slow performance, the grain handling industry, such as our cooperative, has suffered economic losses. We have provided you with an outline of those costs and losses in our prepared statement.

Now farmers like me are seeing lower prices paid at elevators as the market adjusts the price due to higher shuttle train costs.

The basis price for corn in our North and South Dakota trade territory is now approximately 50 cents per bushel less than the average of the prior two years.

An even more dramatic effect to my farming operation would be if my fertilizer supply does not arrive in time to effectively fertilize my crops this spring.

There's additional detail about the overall economic effect in our prepared statement.

The Canadian Pacific situation is also dramatically poor. The CP railroad has recently sold the portion of the line that crosses the state to a short-line operator and expects to close on that transaction in the next couple of months.

However, as of early April, we still have not received all of our January car orders, nor any of our February, March, nor April orders. The CP is behind by 1,900 cars to South Dakota Wheat Growers.

It is soon planting time in the Dakotas and fertilizer needs to reach my farm and many others this spring. I have prepaid for my fertilizer needs for the year but now I'm wondering if the railroad will be able to deliver.

It's yet another economic crunch that is hitting us all. We have documented the effect that can have in our prepared statement.

The BNSF has been the premier U.S. rail operator over the past decade. We truly hope that the recent congestion and slowing rail service issues can be resolved quickly and they can meet or exceed prior performance standards.

Wheat Growers implores the Surface Transportation Board to protect agriculture's access to and utilization of the constrained rail capacity that this crisis brings. We do not want to see agricultural traffic deprioritized or, worse yet, demarketed.

We would also ask the Board to stay vigilant in monitoring the Canadian Pacific as the line in South Dakota is transitioned to a new owner.

Until the ownership changes and the operating system rolls to the new owner, the CP still has an obligation to service the line and should not be simply allowed to walk away from the backload of cars that they have created this winter.

We also urge you to continue to make sure agriculture's needs are heard and addressed. Dependable, timely railroad service is critical to our economic survival.

Thank you for this opportunity to express my views and concerns. I am available to respond to questions the Board may have.

CHAIRMAN ELLIOTT: Thank you. Mr. Doxsie.

MR. DOXSIE: Good afternoon. I have a few slides that I'd like to use.

My name is John Doxsie and I'm President of United Sugars. We sell sugar. In fact, in a typical year, we sell 25 or more percent of the sugar consumed in the U.S.

The majority of our sugar we sell in covered hopper cars to large and small food and beverage companies across the country.

You may recognize many of their names.

These customers expect to receive their sugar on time every time, not part of the time, every time.

The past few months due to slow service on the BNSF we have repeatedly disappointed our customers, costing them money and costing us money and lost sales.

United Sugars is owned by three large U.S. sugar processors including two sugar cooperatives in the Red River Valley area along the North Dakota and Minnesota border.

These two sugar cooperatives, American Crystal Sugar Company which owns the plants in red and Minn-Dak Farmers Cooperative who owns the plant in blue, are owned by several thousand farmers in Minnesota and North Dakota and the cooperatives operate six sugar processing plants shown on the map.

Our farmer owners grow sugar beets. These are sugar beets. They harvest those beets each fall and deliver their beets to the cooperative for processing.

Once harvested, sugar beets are stored outside in large piles until they're processed. The beets freeze while in these piles which preserves them for processing. If the beets thaw before they can be processed, they spoil and must be destroyed.

Beginning with the first harvest in September, the sugar beet refineries operate at full speed 24 hours a day, seven days a week in a race to process all the beets before April or May when they thaw.

Any delay in processing, for example, a delay caused by an inadequate supply of railcars, means we are likely to lose sugar beets which means higher costs and lost revenue.

Eighty percent of the sugar produced by those six sugar refineries that I showed you on the map is shipped by rail and each of those factories is served exclusively by the BNSF and the sugar is shipped in railcars supplied by the railroad.

Just as our customers rely on us to provide excellent service, we rely on the BNSF to reliably supply railcars to us so we can load them and deliver them to our customers in a timely fashion. This has not happened in recent months.

BNSF's inability to supply a sufficient number of railcars and to move those cars to customers in a reasonable period of time has caused us numerous problems.

We simply are not reliably supplying our customers. This has caused them to slow their production, incur extra costs and buy sugar from our competitors. We're losing business.

We've incurred significant additional cost to store sugar and to ship sugar by truck in the absence of reliable BNSF service.

And we've had the slow production

at three of our plants because the BNSF has not supplied sufficient railcars to move the sugar. This is likely production that is lost forever, meaning lost revenue.

I estimate that the final bill incurred by United Sugars as a direct result of this poor BN service will be in the tens of millions of dollars, and that's assuming service improves quickly.

We've heard of the BNSF's plans to purchase more locomotives, hire more people, add rail cars and add track, but as we've heard today, it's not at all clear when we can expect cycle times to return to normal and stay at normal levels.

Until that occurs, the current fleet of BNSF cars, hopper cars assigned to transport sugar, will be inadequate for normal operations.

Given our dependence on the BNSF, not knowing when cycle times will return to normal and stay at normal levels makes it very difficult for us to effectively operate our business.

Therefore, if it's going to take months or years to return cycle times to and stay at normal levels, we need to know that the BN is taking steps now to significantly increase the size of its sugar car fleet.

Historically the BNSF has been a great partner. However, performance over the past year has shaken our confidence in the railroad's ability to address its service issues quickly.

We appreciate the Board's efforts to help gain the assurance that service on the BNSF will quickly be restored to historically good levels. Thank you.

CHAIRMAN ELLIOTT: Thank you very much. Just a few questions. With respect to the sugar cars, I did notice in BNSF's, the information that they gave us regarding sugar cars, they made a special point of referring to sugar cars.

And there was a spike on March 21st that showed that they placed a lot of sugar cars on that date or during that week.

And I take it from your testimony that either those were past due orders and they're not really anywhere close to coming up to speed.

And then has that also, this is a two-part question, continued? Have they continued to spot cars at that rate?

MR. DOXSIE: We clearly have seen some improvement the last couple of weeks but we still have a backlog of late orders, a big backlog of late orders and it's going to take us a long time to catch up.

In fact, we're worried that we won't get the sugar moved out of our bins that we need to get moved out of our bins this year because we need those bins available for next year's crop.

So we haven't shipped as much sugar in January and February and March as we'd like. We've got to ship more the next few months and we're not getting railcars as fast as we'd like to get them.

CHAIRMAN ELLIOTT: Okay. That's helpful, because I did see the spike and it did strike me, so your testimony kind of explains that.

MR. DOXSIE: So it's progress but it needs to be even more progress and continue to improve at a rapid rate.

CHAIRMAN ELLIOTT: Sure. Thank you. Just to the panel generally and it's a similar question that I've asked other shipper panels.

With respect to communication, have you been satisfied with the level of communication you've been receiving or do you feel like there's a role that the Board can play to improve that?

I know we've gone up and tried to talk to several of you, but at the same time, we can play a pretty significant role in improving communication.

I was wondering how you feel your communications have gone between yourself and BNSF and CP.

MR. BRANDT: With regard to CP, in the last couple weeks it went to no communication.

And the comments have been made today about, you know, moving grain over Canadian Pacific, over Chicago particularly. You know, we're told time and time again, no, you can't load anything over Chicago.

We have movements into northern Iowa that works excellent. We still can't get anything that'll bill east. Even our buyers, a couple of small trains a week lately, I mean, they went to extra efforts to unload them in Minneapolis and we struggle to get those cars. Barley cars, that only go Minneapolis or Wisconsin. We can't get those either.

But we're trying to work with them

to come up with a plan that, you know, we can go east. We can go west with some stuff. We can make it work. We want to go, but communication has really broken down.

CHAIRMAN ELLIOTT: Thank you. That's very helpful. Anyone else?

MR. CLEMENSEN: I think from Wheat Growers' point of view, the communication with the BNSF has been pretty good. They're frustrated. We're frustrated.

This is going to take a lot of time and a lot of money, reinvestment into this rail system. From what I've heard on the railroads, they're reinvesting up to the level of their increase in business.

On my farm, if I take on a bunch of new business or new land, I've got to put a lot of money into equipment and not just maintain.

We feel that there needs to be a lot more reinvestment into the rail system than what is being planned at this point.

CHAIRMAN ELLIOTT: Thank you.

MR. DOXSIE: If I could add, I concur with Mr. Clemensen's comments. The communication with the BN has been very good, both at the local operating level, all the way up to senior management.

I think the frustration that we have is shared by the BN. We want to see results.

CHAIRMAN ELLIOTT: Thank you. And we did have a commitment by both railroads that they would work on their communications. It sounds like BN, with respect to this panel, has been doing a good job, but we will hold people to that commitment as we go forward.

VICE CHAIRMAN BEGEMAN: Thank you. Thank you all for traveling as far as you did and as quickly as you did to come and talk to us.

Thank you also for going to North Dakota to meet with staff about two weeks ago or so. We're proud of their effort on our behalf as well.

They have shared with us some of the things that were not too confidential. They let us know of the conversations and the great meetings that they had with you. I'm sure you have Tom's phone number. Keep calling him.

Mr. Clemensen, I'm curious. You touched on the fact that it's going to take time and investment.

What are you guys going to do for -- I'm really alarmed about the next crop year and the need for fertilizer.

Is there a Plan B, a Plan C? What can be done if, despite their genuine efforts to get you what you need, it just doesn't arrive?

MR. CLEMENSEN: Well, on my personal farm I have prepaid fertilizer. I have prepaid seed. I have crop rotations in place.

It's hard to, at this point in

time, the middle of April, to switch cropping plans because I can't get fertilizer for my corn. I don't know what I'm going to do. We're going to have to make a decision the next couple weeks.

Our co-op is sitting full of fertilizer right now, but we turn those sheds three times. The investment in a fertilizer shed is huge so you can't just have it one and done. You have to turn that three times. So we need the rail to resupply.

One of the critical parts of this spring is it's getting compressed. There's not a lot of fertilizer going on right now, so the fertilizer spreading season is getting narrower and narrower so it becomes even more critical to be resupplied in a timely manner.

I don't see how the railroads are going to get that done. It's scary. Our co-op's doing everything we can, but we have paid for the fertilizer. You know, we are making all the contingency plans we can, but

I don't know.

MR. BOSSE: I can probably answer a little bit to that question too as far as our farm, especially from a commodity broker standpoint.

Learned from Mr. Dave Andresen today where I buy all my fertilizer, that, like he said, only 66 percent of it is going to be allocated to him.

So I instantly started thinking about, okay, what's Plan B for us? Where do we go? And I think I know what's going to happen for most farmers. You're not going to plant corn without fertilizer. You just won't.

What happens if it gets too late, then we're going to switch to soybeans. That's fine, but as a supply and demand standpoint, what's that going to mean next year? We're going to produce too many soybeans. The prices will be low by fall.

Brazil and South America, that's

what they do right now, is produce a ton of soybeans because they don't have the transportation to ship out corn.

It's just going to be a problem down the road that is going to have to be dealt with anyway but, yes, this fertilizer is a huge concern for me.

Second I walk out the door, I'm going to make phone calls to make sure we got a little bit extra, or try to anyway. Thank you.

MR. SCHANILEC: Vice Chairman, I would like to add to that. I think an alternative to the edible bean industry is not to grow the crop. There is no Plan B, no Plan C, no Plan D.

If we don't have logistics and storage and an edible product that's very specialized, our Plan B is black acres, not planting the crop.

VICE CHAIRMAN BEGEMAN: It wasn't clear to me, what carrier is serving you, or is it a system-wide issue for your area?

MR. SCHANILEC: Oh, I think it's industry-wide.

MR. BERTHOLD: To add to that, like I had mentioned with it being a perishable product, it's simply not possible for us to say, well, we'll build bins or do things like that and store it.

We don't have the option of running our product through livestock to get it to a human, right? If it becomes dark, if it's not cannable, things like that. Really our only option is to sell it for a feed, and we're done. It's game over at that point, so.

In our own operation, my operation, we're building additional storage to handle this, some of this issue, but without an increase of capacity in service I can't build enough storage this summer to get ahead of it.

VICE CHAIRMAN BEGEMAN: Thank you. Your testimony was very informative. We certainly understand how serious the situation is for you personally and, frankly, nationally what the impact could be and we'll keep working.

MR. BERTHOLD: Thank you.

CHAIRMAN ELLIOTT: Yes, thank you very much. We greatly appreciate you coming.

(Pause)

CHAIRMAN ELLIOTT: All right, why don't we begin with our next panel, Panel Number VII, and I believe we'll start with Mr. Canter.

MR. CANTER: Thank you, Mr. Chairman and Madame Vice Chairman. And, indeed, my name is Tom Canter. I'm the Executive Director of the National Coal Transportation Association which has approximately 140 corporate members and we're associated with the production and the consumption of coal as well as companies that provide services to the transportation of coal, such as car builders, railcar builders, bearing manufacturers, and folks that are the casting the wheels, et cetera.

Our primary mission is to educate the membership and the general public and inform our members of various data that they need to have for their operations.

We were formed in 1973 because there was something brand new, this is pre-Staggers, of course, called unit trains. What in the world? No, it's going into the Powder River Basin and people had not seen those in any great volume and they were going to have to purchase railcars because the railroads, as we all know, were really hurting for capital money and there was a lot of bankruptcies.

Today it seems to be reversed. We just had a coal company file Chapter 11 this week and we've had in the last couple of months a merchant generator filed Chapter 11 Bankruptcy.

But our members now, as this has

grown, control about 80,000 coal cars. The coal producers all throughout the Country and particularly in the Powder River Basin have capitalized and put into place load outs, batch waste systems, at about $20 million apiece and put in loop tracks to help the railroads with surge volume, that's about a little over a mile, a mile and half long.

And these are necessary capital investments and our members are happy to do that as long as it continues to improve the system.

I would say the primary transportation companies, such as the railroads, barge companies, trucking companies, are not members, but they're important participants in all of our working committees.

As a matter of fact we have two working committees meeting later this month at our Spring conference in a breakout session and the railroads will be there as well to inform us and we will discuss very many of the items that you see right here.

It's almost like you wrote my note here on communications, and we do have good communications I believe with the railroad, but there are certain things we'd like to talk about specifically with the railroads that we don't get information on and I'll mention that at the very end of my little presentation.

There is stress in the coal delivery system. I don't think there is any surprise there, we don't want to beat it death it's been hit all morning, but we did a survey of our own members by email and phone here within the last week and a half.

The data will be held in confidence and it's going to be aggregated for trending so it's very difficult to give you any specific data, but I'll say this, rail performance varies greatly by the railroad and the location.

There has been a severe

deterioration on the BNSF in terms of cycle time and on-time performance, delivery when they say they're going to deliver from the local terminals. Now this is all information from my membership, I don't have any separate data information to analyze.

The CSX has been challenged also by locomotive performance. I heard Cressie a little earlier talk about leasing and about purchasing new locomotives, but we've had a lot of online failures with those locomotives.

I think that'll be fixed and be repaired fairly shortly, but as they brought those out of some inventory and storage it didn't work out quite as well as they thought it would and they have missed some tonnage for some of our Eastern utilities.

The Union Pacific is showing some effects of weather and temporary crew dislocations, a lot of that's because Chicago, which we've heard considerable comment on here in our prior two panels.

More stress on the system, we're seeing cycle time increases to the ports. There are some Western export coal, but there's also Eastern coal, we've seen a little increase in cycle time there but the truth is I have talked to the coal producers and I do not know of major vessel demurrage problems.

We're seeing some of that I think in grain that people have talked about, but I have not seen that so far in coal, and that's not to say there's none, I just don't think that's our major problem immediately.

Coal producers are seeing major, or not major, they're seeing reductions in their delivery domestically as well. Again, it's a little bit like real estate, it's location, location, where is your mine, what's happening.

Some mines are down almost 30 to 40 percent, which means laying off some employees and certainly taking a look at a mine potential shutdown. That's one extreme case.

Utilities, we talked about ground storage, and interesting to me, when we had our feedback, it's almost a binomial distribution of ground storage.

So it's not a situation where you say everybody over here is five days, ten days, everybody over here is 40 days, it does vary. It does vary on location and it also depends on where you started into the Winter season.

I mentioned that we have about 80,000 cars either controlled or owned by our utility members. Equipment utilization is another area that we're concerned about. Train sets have been laid down in some cases, and I think it's been corrected through communications, but earlier on in January and February trains were laid down and the utilities did not even know it for about six days, seven days, et cetera.

They weren't informed officially

that they were laid down. There is a protocol and a priority was developed by NCTA several years ago along with the railroads for laying down trains and we may want to revisit that, but we certainly respect the right of the railroad to do what they have to do online and during operation.

And in the lack of crew and power, are making train sets or car sets owned by the railroads who put them in, normally twice a year into repair shops, but getting them out is something else in terms of getting the locomotive power.

I do have one utility that actually had 11, I know it's hard to believe, 11 sets in a repair shop that had already awaited, already had ordered a crew and locomotives to remove them from the repair shop. And, by the way, that was not on the BNSF.

We think CSX and UP will return to normal delivery much quicker if there's no major weather, this location, you've heard about the Chicago things and this is, again, feedback from our utilities and the way they are looking at the systems.

However, because of communications with the BNSF and the feelings on what will happen, we're not expecting full recovery until the first quarter of 2015.

Utilities will continue to manage the coal pile, not every utility does that, but most are de-rating their units somewhat so that they can make sure they have coal in this Summer, for the Summer peak.

This could be expensive to the rate payer as natural gas prices have increased and the demand for storage of injection natural gas is quite high.

And believe me almost every coal producing area at $4.50 for natural gas per MCF is in the money for coal when you hear a lot about natural gas prices.

Okay, so the concerns will be that

we're going to be in low inventory during the hot Summer demand, the railroads are going to manage your coal piles for you instead of you managing it yourself, electricity prices will be higher than necessary, purchase power, of course, will be expensive.

What's the NCT elect do? We have formed two working task forces and we've talked to both the railroad, the coal or energy departments, that is the BN and the UP, they have agreed to work with us.

We wanted to take a look at the forecasting process, which we can do on the joint line, and that forecasting process we'd just like to clarify.

I think it's good for the railroads, it's good for us, we got a lot a new folks in the utility business and sometimes they're told to move their forecast up a month from coal that was missed last month.

That may not be what's good for

the railroads, it may not be good for slotting in the joint line, and then equipment utilization. What should we be doing here in terms of laying down sets and having maintenance on a regular schedule? And I think we can talk and that can work out real easily.

That is all I have. Thank you very much.

CHAIRMAN ELLIOTT: Thank you, Mr. Canter. Mr. Adkins?

MR. ADKINS: As you've already said, my name is Mark Adkins and I'm the Vice President of NexGen Coal Services.

CHAIRMAN ELLIOTT: Well I don't think your mike's on. Thank you.

MR. ADKINS: You were probably better off before. Again, my name is Mark Adkins. I'm Vice President of NexGen Coal Services and TUCO, Inc., and I'm here to talk a little bit about the TUCO part.

TUCO is a single purpose entity.

Our purpose is to procure coal, transportation services, and coal handling services for two large coal burning power plants in the panhandle of Texas.

And those two plants combined consume about eight million tons a year. It may be obvious, but I want to say it anyway, that to be valuable, of value to the powerplants that fuel supply has to be reliable.

Reliable generation is dependant upon reliable fuel which is in turn dependant upon reliable transportation services. To secure reliable transportation services TUCO entered into two agreements with the Burlington Northern Santa Fe under their Common Carrier Pricing Authority, BNSF 90068, particularly Attachment A which is entitled "A Coal Unit Train Commitment Certificate."

These certificates provide for, and I quote, "Common carrier service for movement of loaded and empty coal unit trains as ordinarily and customarily provided by BNSF for such services."

Further, it states that "Cycle times and schedules may vary from time to time." And as important as any of that is that the minimum volume under these agreements is 100 percent of the coal shipped to these plants each year.

I'm going to talk about the common care, it brings me to the question for the Board and that's what's required of the BNSF to meet this common carrier obligation?

It seems that as we move farther and farther from Staggers that obligation and how it's defined has become more fuzzy and less clear, but surely their obligation lies somewhere along this line of guaranteed cycle times to well, we'll move it when we decide we want to move it, so it has to be there someplace.

Anyway, so that's, I'd just like clarification on that. But going back, TUCO and BNSF have combined their efforts over the years to move between eight and nine million tons of coal a year to these powerplants using ten sets or fewer sets of cars.

Each one of these sets is 120 cars, so it's about somewhere between 14,000, 14,500 tons per train. Over the past 12 months we've seen a steady month-to-month erosion of cycle times.

The cycle times have increased from the start of the period when they were in their 130's to over 170 hours per cycle now. Why do cycle times matter? Well, each 10-hour increase in cycle times we see costs us the ability to deliver a half a million tons of coal.

So if we're at 20 hours over the prior times, that's a million tons that aren't going to get delivered at those higher cycle times and the system is so loaded up with sets there's not room right now for additional trains or cars to be added.

But I'm not here, I didn't come here to vilify the BN, I enjoy my relationship with the BN, but I just did come to make my situation known to the Board and maybe make a couple of suggestions.

And, like everybody else has said here, better communication. And I think the communication has been improving. We still lack some things as Mr. Canter kind of mentioned that we're still getting some sets set down without any notification.

We have to kind of find that out when we're tracing them. If we see them sitting in the same place for a couple of days, well even an old coal miner like me begins to figure out that's probably, had the power pulled off of it. So we need to improve on that.

Also, it was discussed earlier, the BN providing more detailed information, we get service advisories and those are good, and the last one on April 4th said that, you know, there were 80 fewer trains holding than there had been in the prior period.

What I would like to understand is what is that relative to? Is it 180 or is it 1080? Because it helps me kind of understand is my set one of 40 or is it one of 4000 that's out there, that might be parked.

But, you know, that's pretty much, you know, there's several other examples of improving --

CHAIRMAN ELLIOTT: And feel free to continue if you'd like.

MR. ADKINS: Okay. Well I'm just wrapping it up. Everybody has kind of mentioned that, as they were going through their presentations, hey that's one of my bullet points.

I would suggest that the railroads meet with the industry groups as well as individuals, I know that's not their preference, but some individuals, some companies, are a little reluctant.

My perspective was hey, I got nothing to lose. I'm losing inventory every day. And on March 5th Steve Bobb took time out of his busy schedule and several of his associates to sit down and meet with us.

We both presented our information and I think both of us came away better informed and we really appreciate not only that effort but the communication that we get from the marketing director that takes care of our account.

So, anyway, I want to thank the Board. I commend you for having this hearing. You've got a difficult task ahead of you, because it's going to have to be as we see it a delicate balance, it has to be met, obtained, that's the balance between what the BN and the CSX and everybody else can do and try to balance that service among the coal crew to agriculture intermodal customer base.

So, anyway, that's, thank you for --

CHAIRMAN ELLIOTT: Thank you, Mr. Adkins. Ann?

VICE CHAIRMAN BEGEMAN: I don't have specific questions for you, but thank you for the effort that you made to come here and talk with us and inform us, particularly your personal efforts with the railroads, both frustrations and hopes.

Thank you, Mr. Canter, for giving sort of the broad perspective of the 80 companies that you represent.

CHAIRMAN ELLIOTT: Just a quick question, I mean it's more broad than, but, it sounds like the communication with respect to you, Mr. Adkins, has gotten better and it sounds like it's been pretty good based on your take.

Mr. Canter, do you see that there are any other opportunities out there as far as running on other Class I lines if there's a congestion problem that are available to some of the coal shippers? I know that it's, and I'm asking --

MR. CANTER: There are some units -- I'm sorry. There are some units that have a dual service and that would give them an opportunity if they're both taken from the same mining area.

CHAIRMAN ELLIOTT: Yes.

MR. CANTER: It varies considerably differently in the East, but in the Powder River Basin I guess it would be possible.

I wouldn't want to get into the whole, not that many units are that close to terminals, so that may not be an option there in switching, but there may be some possibilities.

CHAIRMAN ELLIOTT: Okay.

MR. CANTER: But the idea that Mr. Bobb talked about in terms of diverting to mines is also not a bad idea, it just depends on the utility and if they can do that.

CHAIRMAN ELLIOTT: Okay, thank

you. That's very helpful. As the Vice Chairman said I really do appreciate you coming here and look forward to seeing you soon, Mr. Canter.

MR. CANTER: All right.

CHAIRMAN ELLIOTT: Thank you very much.

(Pause)

CHAIRMAN ELLIOTT: Okay, why don't we begin with Panel VIII and I think we're going to begin with CURE and Mr. Gutierrez.

MR. GUTIERREZ: Thank you. A little competitive switching there going on I guess with chairs. Thank you, Chairman Elliott and Vice Chairman Begeman, for scheduling this hearing on rail service issues.

I appreciate the expedited hearing to listen to the concerns of shippers and hear directly from the railroads about service issues. I also commend the STB for sending staff to North Dakota to meet with affected parties on the ground in the States and outside of Washington D.C.

As you mentioned, my name is Paul Gutierrez. I work for the Rural Electric Co-Ops, but I appear here today on behalf of Consumers United for Rail Equity, or CURE, of which NRECA is a member.

CURE represents over two dozen major individual rail shippers and various commodity groups and other large trade associations that represent more than 3500 electric, utility, chemical, manufacturing, agricultural, and forest and paper companies and their consumers.

You have heard numerous entities today that have had similar issues as our CURE members that prompted the meeting. I'll give you an example, Dairyland Power Cooperative has been unable to get rail delivery of coal needed for their generation of electricity.

The increased cost of trucking in coal or supplementing their generation with natural gas will ultimately be borne by their consumers.

Our utility members are required to keep the lights on, to keep the power flowing, and don't have the luxury of not delivering power. They are required to make continency plans to keep power flowing.

Many other commodity groups, such as agricultural products, chemical products, and paper and forest products, are being similarly affected as you've heard today.

CURE submits that the service problems we're discussing today reflect the impacts of rail market power because of the lack of market competition.

It is not a secret that firms holding a lot of market power may not invest in capacity and not respond as they would under normal market conditions.

To respond effectively to the harms, CURE believes that the Board needs to take into account the broader context in which these harms have arisen.

Just a couple of weeks ago at the Public Hearing of EP 711, the Board heard from railroads and the repeated longstanding claim that they basically don't keep excess capacity to absorb the new traffic that they might obtain from the NIT League's proposal.

At that same hearing you heard from the ACC and escalation consultants the new study that shows by commodity group the revenue over 180 of RBC thresholds the railroads are now collecting.

The evidence clearly shows that railroads are now beyond revenue adequate and exercise too much market power over rail-dependant shippers.

With the achievement of the revenue adequacy by major railroads the Board now faces a new paradox of how revenue adequate carriers, or a group of carries with access to all the capital they need elect to operate their systems in a way that produces inadequate service in the absence of any type of market competition.

We hope that by initiating this hearing and with the pending competitive switching hearing decision that the Board carefully consider competitive access provisions that have not been available in the past.

Across the Country CURE members in many different industry sectors experience daily rigors of competition and effective regulations where needed to prevent excessive market control or profits.

CURE and its members urge the Board to view the current service issues as another symptom of excessive rail market power and to apply competitive access remedies Congress long ago provided for inadequate service.

Service problems stemming from market power can't be solved solely by competitive switching, but that's a good place to start. The current state of rail consolidation and lack of competition is only upping the ante for poor rail performance.

The Board can guide the rail industry to make decisions to operate their systems in ways that are less myopic and more consistent with sound rail transportation and effective competition.

We would ask that you seek ways to increase competition, look favorably on the competitive switching, EP at 711, require emergency orders for rail delivery of coal and commodities as necessary, require carriers to make available data service disruptions and plans to address those delays, require plans to address long-term growth and reliable rail service, and then to require emergency and contingency plans to plan for the next worst winter on record.

Thank you for the opportunity to present here today.

CHAIRMAN ELLIOTT: Thank you.

MR. BLILEY: There we go. I think that's on. Chairman Elliott, Vice Chairman Begeman, thank you for the opportunity to speak today. My name is Chris Bliley. I'm here on behalf of Growth Energy.

Growth Energy is an association of 83 ethanol producers, 82 associate members, and thousands of ethanol supporters across the Country.

We promote expanding the use of ethanol in gasoline, decreasing our dependance on foreign oil, improving our environment, and creating American jobs.

Ethanol is a home-grown renewable fuel that provides significant benefits to our Nation's transportation system. Today we represent nearly 10 percent of our Nation's transportation fuel supply and are poised to grow even more.

In 2013 the ethanol industry produced over 13 billion gallons of renewable fuel and over 60 percent of that was transported by rail.

As you may have seen in the last few weeks there's been a great deal of attention on the recent tightening supply and related price spikes for ethanol in certain markets.

Make no mistakes these price spikes have not been caused by a lack of ethanol production or supply, but purely because of an inability to get timely rail transportation.

There have been numerous examples of our producers having to wait and wait on trains to deliver their product. In fact, many plants have reduced or even halted production because their storage capacity is fully utilized.

In examining the situation just last week the EIA stated that logistical constraints in and around ethanol production centers in the Midwest, mainly involving railroads on which approximately 70 percent of ethanol is shipped, appear to be a key factor driving the recent prices.

Ethanol stocks were drawn down Nationwide by nearly two million barrels from mid-February to mid-March. This is more than four million barrels below typical March levels.

East Coast inventories were especially hard hit and on March 14th reached their lowest level since the EIA began recording data nearly four years ago.

In a related story on ethanol exports the Oil Price Information Service reported U.S. ethanol exports in February were down 21.9 percent versus January and rail congestion that delayed delivery of ethanol volumes to U.S. ports most likely played a part in the drop.

On top of the poor and declining rail service our industry has seen increased tariff rates on certain routes, some taking effect as recently as April 1st.

Not only did one railroad give our producers very little notice of the increases, but I dare say few, if any, industries would have the ability to increase shipping rates while their service has been so poor.

The bottom line is that the railroad industry is not meeting its obligation to transport goods in a timely and effective manner.

This failure in service has had a ripple effect on American consumers by increasing the cost of goods and services and has directly impacted our industry by causing a de facto shutdown in production as there's simply no more space to store product.

For our industry and many others that are captive to the nation's railroads to efficiently transport their products, we hope the rail industry will take steps to immediately improve its service record and take this situation as a wake-up call that they need to make the necessary infrastructure investments to fulfill their obligations of the common carrier.

Recent ethanol price spikes and reduced production are a direct result of this lack of service. The lack of service is unacceptable and the rail industry must do better.

I appreciate the opportunity to be here today and happy to provide additional information as necessary.

CHAIRMAN ELLIOTT: Thank you very much. Mr. Hubbard?

MR. HUBBARD: Chairman Elliott, Vice Chairman Begeman, good afternoon. My name is Ed Hubbard. I am the General Counsel for the Renewable Fuels Association. We're the oldest and largest ethanol trade association in the United States and represent the U.S. ethanol industry from issues from seed to tailpipe.

On behalf of our membership I want to first thank the members of the Surface

Transportation Board for holding this important and timely hearing.

The recent crisis of congestion that is seemingly overtaking the rail industry has become a huge and costly problem for shippers of all commodities, including the U.S. ethanol industry.

This crisis is one that is causing significant harm to the economic health and well-being of our Nation's economy as well as driving up costs for a wide array of commodities that rely on rail for transportation.

As many of you are aware, ethanol has become a critically important component of the U.S. Motor Fuel Market. Today, 96 percent of all gasoline sold in the United States is blended with at 10 percent ethanol.

This ethanol was blended with our motor fuel supply as an octane enhancer to improve vehicle performance, as well as an oxygenate to reduce carbon emissions and other dangerous particulates.

Given the consistent price competitiveness of U.S. ethanol over petroleum-based gasoline, the blending of ethanol in gasoline has also become a valuable economic benefit for American motorists.

With crude oil prices hovering around $90 per barrel, the blending of ethanol as an additive in gasoline has resulted in savings to the American consumer of between 50 cents to $1.50 per gallon.

However, over the past few months mass congestion on the rails has denied consumers this cost-effective option. Due to an uncharacteristic Winter rail shipments of all commodities have been significantly delayed across the Country.

For ethanol this congestion has led to a dramatic delay in ethanol shipments to fuel terminals and caused shutdowns of operations at ethanol plants because they can't continue to store product while awaiting rail carriers to move their product.

I have one slide that I'd like to show here. This slide indicates --

(Off the record comments)

MR. HUBBARD: Yes, yes. Thank you. This graph essentially shows train speeds as well as dwell times, but on an average basis showing that, you know, in comparison with last year, it's a 12 percent, roughly a 12 percent slower rate at speed in late February.

And then while dwell times have been improving somewhat and they're still 25 percent above normal on the average, but I think it's important to note that this is just an average when you look at rail lines such as BNSF and other ones like CSX, we are seeing double and triple the time, dwell times, at terminals.

While we understand and appreciate that this was an unusually powerful Winter season, it seems unreasonable to conclude that

Winter weather alone was the cause of such a significant congestion crisis on the rails.

Winter comes every year and rail operators, especially those in Northern parts of the Country have had a long history of and experience in adequately preparing themselves for extreme cold, snow, and icy conditions.

In fact, in many Northern regions of the Country the extreme snow and icy conditions experienced this year are the norm rather than the exception. This begs the question, why is the rail industry having so much difficulty in responding to this year's Winter season?

What the data tells us that is different about this is year as opposed to the countless other Winter seasons is the recent dramatic and explosive growth in railcar shipments of Bakken and Canadian crude oil.

As reflected, if we could -- Oh, I'm sorry, thank you. I could do that myself. As reflected in this graph showing the growth of crude oil, you've had a significant growth in the last two years.

While rail shipments of ethanol have stabilized over the last four years, crude oil shipments have grown dramatically. Growing from less than 70,000 carloads in 2011 to more than 420,000 carloads in 2013.

The growth in crude oil shipments has reshuffled the existing fleet of railcars and locomotives, pressured lease rates, changed normal rail traffic patterns, and generally exerted significant stress on the rail system.

And with this congestion crisis it is becoming more and more apparent that surging crude oil shipments are coming at the expense of other goods and commodities like ethanol.

The U.S. ethanol industry has long relied on the railroads for delivering its product to market as well as receiving necessary inputs for processing its fuel and other co-products.

In fact, trains have historically served as an economical and efficient virtual pipeline for ethanol, safely moving our product from plants concentrated in the Midwest to population centers on both Coasts.

Therefore, we believe it's critical for our Nation's rail operators to work quickly to resolve this situation. Moreover, in addressing this situation, the rail operators must respond in a way that treats the vast array of other goods and commodities competing with crude oil on the rails fairly and equitably.

As a supplement to my testimony today, I'd also like to submit a copy of a recent letter on this very subject from RFA President Bob Dinneen to Ed Hamberger, the President and CEO of the Association of American Railroads.

Once again I thank you for the opportunity to voice our industry's concern on this important issue and I'd be happy to answer any questions you may have.

CHAIRMAN ELLIOTT: Thank you, Mr. Hubbard.

MS. RIETZ: Good afternoon, Chairman Elliott, Vice Chair Begeman. I am Kei Rietz, Commercial Manager at Northern Tier Energy, an independent downstream energy company with refining retail and pipeline operations, but primarily consists of an oil refinery in St. Paul Park, Minnesota, referred to here as SPPR.

I'm joined here today by Jason Akey, who has served as Commercial Operations Manager the last three years. I'm also joined by Charles H. Banks, President of R L Banks and Associates, an independent railroad consulting firm.

To begin, some brief background. We are one of only two refineries in Minnesota and one of four refineries in the upper Great Plains.

In addition to various physical, logistic assets, Northern Tier Energy also operates and supplies fuels to 163 convenient stores and 73 franchised stores.

So let me move directly into how CP has historical served the St. Paul Park refinery. There is a slide of a map. Yes.

MR. BANKS: We'd like to bring you some, since it's very detailed, we'd like to just to bring you some --

CHAIRMAN ELLIOTT: Okay.

MS. RIETZ: CP is supposed to provide switching services once a day, seven days a week, from its St. Paul yard facility, depicted as Number 1 on the map, to the refinery, depicted as Number 2.

The distance between the CP yard and the refinery is only eight miles down an industrial lead which directly accesses CP's yard without crossing any other rail line, so rail access has been convenient and efficient for both parties.

The refinery's ability to maintain stable production levels is dependant on steady, predictable deliveries from CP. Now I'll discuss what service looks like today, but I do want to just mention that our issues are not with long haul service or routing, but focuses on local operations or the last mile of service.

But I do believe what we're hearing here today has accounted for some of the challenges we face. Beginning in late 2013 CP's switching steadily declined from seven days a week to a sporadic and irregular event to an average of almost six failures a week over a 10-week span, and I do have some accompanying calendars.

MR. BANKS: I have them.

MS. RIETZ: The accompanying calendars provide a graphic demonstration of the extent of CP's service failures in the last three months, a failure being defined as a missed switch or a failure to pickup and deliver specifically ordered cars. In March --

MR. BANKS: Next slide, please. Next one up?

MS. RIETZ: March, please. Thank you, thank you. In March, only nine days transpired without service failure. The most frustrating aspect of the recent degradation of CP's switching is breakdown in communications.

Of the 57 service failures recorded by SPPR and reported to CP via email, 27 elicited no response whatsoever. What limited responses SPPR did receive were often vague and occasionally not factual in nature.

The simple fact is we can no longer trust CP to deliver carloads on time or to produce realistic solutions to past service failures. It goes without saying that these have had a severe adverse affect on the refinery.

There are several byproducts of

the refining process which require rateable and regular rail service. In recent months service failures have resulted in a total approximate loss in revenues of $1.3 million, approximately 110,000 barrels of lost fuel production, or approximately 225,500 full tanks of gas to the Minnesota area.

Since some of the products we produce may not be familiar to everyone, I would like to just take a moment to highlight some of the ways in which our refinery is tied to the local community.

SPPR's primary focus is taking crude oil and refining it into gasoline used in our cars and diesel fuel, which is used to fuel trucks, busses, locomotive engines, including CP's in the Twin Cities, and farming equipment.

SPPR also produces jet fuel, which supplies all the major carries at the Minneapolis/St. Paul Airport. Some others are asphalt, used in road repairs, propane, used in heating your home, your outdoor grill, and also its main use in the Fall, drying the crops, and sulphur, used mainly in the fertilizer market.

So not only -- I am almost done.

CHAIRMAN ELLIOTT: Yes, take your time.

MS. RIETZ: So not only does the refinery provide fuels to the local market and support hundreds of retail gas stations, we are also closely tied to a number of other industries.

Northern Tier is not asking the STB to force on an unwilling industry a revolutionary shift in the way CP operates nor are we asking the Board to introduce competition where there is none today.

What I am seeking specifically at a minimum is increased communication from CP. An increase in both the quality and quantity of communication, both from the local and corporate level which hopefully will resolve our fears that the complete absence of communication in recent past has not been indicative of the fact that CP had no plans or intentions to make operational changes which might restore service.

We need transparency into what operational changes are being evaluated and implemented in the coming weeks and months so that we not only can interpret what we are experiencing, but also give us a timeline and foundation on which to make our own future operational decisions.

I did hear you ask the BNNCP to increase communication on all levels and I was pleased to hear that affirmation and it is my sincere hope this comes to fruition.

But I would add, most importantly, we also expect a system of accountability. This is the most important aspect and something which we hope this Board will do.

We are demanding this in the interest of our employees, our customers, our suppliers, our business associates, our equity partners and shareholders, the Minnesota area consumers, and in the vernacular of a railroad, our operating ratio.

Chairman Elliott, Vice Chair Begeman, thank you.

CHAIRMAN ELLIOTT: Thank you very much.

VICE CHAIRMAN BEGEMAN: Could you just repeat for me the number of times you tried to reach CP to which they did not respond to you?

MS. RIETZ: Fifty-seven, and 27 --

MR. BANKS: In the first quarter alone.

MS. RIETZ: In the first quarter. We only began keeping a failure log as of January 28th. Typically we do see peaks and valleys in service, but they often regulate after a time and that is what we remained hopeful and patient for.

It did not happen, so in late

January we started a detailed record and then kept an email trail of our notifications. And as I mentioned, 27 of those notifications elicited zero response, no phone call, no email, nothing.

MR. BANKS: We'd be happy to share our log with them.

MS. RIETZ: And if you'd like we'd be happy to share that log with you.

VICE CHAIRMAN BEGEMAN: Thank you. I commend you for that communication. And, although Mr. Creel, is not present here, I know that members of his organization are here and I am sure that they will work to meet your request.

And I just want to thank the rest of the panel, we certainly have gotten your messages and we appreciate your effort to be here.

CHAIRMAN ELLIOTT: As well, I'd like to thank everyone here. CP did make a commitment to communicate well with its shippers, so we will hold them to that and I assume you'll hear from them soon.

Thank you, the rest of you also, for appearing before us today. Your information was very helpful and you're free to go. Thank you.

We're going to hold off on bringing the other panel up at this moment. I believe Senator Thune is within a minute or two away and appears to be, has a vote he has to run off to right after this.

(Pause)

CHAIRMAN ELLIOTT: There we go. That's good timing.

VICE CHAIRMAN BEGEMAN: Yes.

CHAIRMAN ELLIOTT: Feel free to start, Senator Thune.

SENATOR THUNE: Thank you Mr. Chairman, and I do appreciate you Mr. Chairman and Vice Chairman Begeman, holding today's hearing, and also the importance of focusing a light on this issue. It's very important to my State and to a lot of other folks who are here.

So we appreciate your taking a look at the options that might be available to improve service to South Dakota and other areas that are experiencing similar type difficulties.

Today's hearing, I think as you've seen in an overall number of speakers underscores the degree to which rail service and supply problems can have an impact on small businesses, both large and small.

And I appreciate the opportunity that you've extended me to allow, me to speak with you about this issue as well as that you've extended to the South Dakota Secretary of Agricultural, Lucas Lentsch, Midwest Cooperative General Manager, Mil Handcock, South Dakota Farmer and Producer, Dennis Jones, South Dakota Farmer, DuWayne Bosse, who is here today on behalf of the South Dakota Farmer's Union, and South Dakota Wheat

Grower's Board President, Al Clemensen.

Given your roles at the STB you both hear frequently about how important reliable rail service is to so many in our Nation.

When the U.S. Rail System is operating without impediments, there's no question that it is the preferred option to move large amounts of goods in a safe and a timely manner.

As Vice Chairman Begeman knows, as a native South Dakotan, our home State is no different when it comes to the critical importance that railroads have, especially for our State's agricultural sector.

As the former South Dakota Rail Director I understand that our farmers, ethanol producers, and other small businesses rely on rail service from Burlington Northern Santa Fe Railroad and from Canadian Pacific Railway, not only to get their products to domestic and International markets, but also for inputs that are critical to their businesses.

Unfortunately, the disruptions in rail service that they've experienced this winter have had a very real impact, not only on short-term operations, but also on their planning for the remainder of the year when it comes to making business decisions.

For example, Redfield Energy, located in Redfield, South Dakota, is a five million, I should say 55 million gallon per year ethanol producer served by BNSF.

It's ethanol plant processes approximately 20 million bushels of corn a year, which, in addition to producing ethanol, also produced 233,000 tons of distillers grain that Redfield sells mostly to feed, to local cattle producers.

To move its ethanol to market it leases 200 rail tanker cars and typically expects rail turns on these tankers to take approximately four weeks. At normal production levels it would fill 40 rail tanker cars per week.

Well beginning in mid-December when Redfield Energy originally reached out to me regarding its service issues it had been experiencing rail turns averaging up to six weeks and in one instance it took eight weeks to complete a turn.

When the tank cars are not returned on time and the ones on hand are full, Redfield has few other storage options and is forced to slow the plant's production.

Now you may ask why shutting down all together is not a viable option. Well not only is a complete shutdown inefficient, but it can also jeopardize the entire plant when temperatures are at or below freezing, a common occurrence this Winter, where pipes can freeze and explode.

To prevent this worst case scenario, Redfield has been forced to run its plant at 60 to 90 percent all Winter and has no plans to run at full speed anytime soon due to continued delays and uncertainty with rail service.

Redfield has also been forced to purchase distillers grain at spot market prices which are higher than market prices in order to meet obligations.

When this happens there's this cascading impact on other parts of the ethanol plant's operation, including the inability to pre-sell ethanol or distillers grain to customers because of the uncertainty of the plant's speed or its ability to transport the product to the market.

Rail service has become so uncertain that Redfield Energy has decided to more than double its onsite ethanol storage capacity before next Winter which will provide it an additional ten or 11 days of operating ability to protect against plant shutdowns due to delays with railcar delivery in the future.

Redfield Energy has also relayed

how poor rail service has led to other problems for those with whom it does business. For example, Redfield has not been able to provide all of its cattle producers with the amount of distillers grain the producers typically rely upon.

It's also led to a wider corn basis. While this may be good for Redfield in the short-term because the company receives an essential input for its business at a lower cost, it is seriously impacting agricultural producers who themselves have been faced with rail service issues.

For example, North Central Farmers Elevator located in Ipswich, South Dakota, is a farmer-owned cooperative that serves over 2500 producer members in North and Central South Dakota.

Its Ipswich grain elevator placed a railcar order with Canadian Pacific on January 24, 2014, for a hopeful delivery to its facility on January 27th. The cars arrived on March 17th, seven weeks late.

This late delivery was made even more frustrating by poor communication from Canadian Pacific which failed to respond to inquiries about when the cars would arrive.

The elevator in Ipswich faced significant economic hardships by these rail delays. When the January 27th cars did not arrive the grain inventory at the facility reached capacity.

In order to meet other outstanding contracts it had to move that grain by truck to another railroad loading facility. So between January 27th and March 17th it moved over 300,000 bushels of grain at a cost of 18 cents a bushel, or $54,000 in additional unplanned transportation expenses.

Once at this new facility it found the cost of rail service had also increased due to scarcity with a typical grain shuttle running $6000 over tariff.

These two unexpected costs equate

to an additional $1.78 per bushel in unexpected expenses being paid not by the eventual purchaser but by the farmers and the elevator owners.

Another grain elevator, Dakota Mill and Grain, headquartered in Rapid City with a total of seven rail facilities serving 500 customers, calculated the cost of poor rail service another way.

If the poor rail service lasts for six months and during that time producers see grain prices drop by 10 percent and agricultural inputs like feed and fertilizer increase by 10 percent, something that they're expecting, it will cost its customers approximately $3.5 million.

To make matters worse this loss will be hitting agricultural producers in the Spring, the exact time they're usually dependant on grain sales to finance their work.

The elevators located off the rail

lines owned by BNSF and CP, such as the rail lines owned by Twin Cities and Western Railroad Company, a short line operating the Sisseton Milebank rail lines, might be in the worst shape of all.

Instead of having to wait long periods of time for car orders, they've been told that they cannot even place any new car orders until August due to congestion on the main rail lines.

Between now and then they can just be added to a wait list and cars will be delivered as available. While a concern for many on the rail line it will become critical for Border States Co-op in Wilmot, South Dakota, if this is not resolved before the end of Summer.

In August it starts to receive wheat from local producers, with soybeans arriving in September. At its facility, however, both grains are kept in the same storage bin.

This means if Border States is unable to move all of the wheat it has purchased by railcar before the soybean harvest begins the soybean producers will have no place to sell or store their product.

Border States has asked to be added to the railcar wait list for August, but at this point there's no guarantee it'll receive a single railcar in time to move wheat before soybeans.

So as you can tell by these few examples and the other testimony that you've heard today, the rail service constraints being faced by South Dakota shippers are having a huge impact on a wide cross-section of producers and shippers in our State and region.

They also have an impact on the future economic health of South Dakota and our number one industry which is agriculture. As transportation costs increase the basis for farmers selling grain is growing larger and larger, which is taking money directly out of farmers' pockets.

What this means for South Dakota is a direct transfer of wealth away from the State, which not only negatively impacts agricultural producers, grain handlers and the ethanol industry, but it also impacts other Main Street businesses that rely on equitable prices for South Dakota agricultural products.

It is imperative that we find a solution to these very real service problems. I've appreciated the meetings and the calls that BNSF and CP have had with me and my staff about this issue over the past few months and particular the steps that BNSF has taken to hire new employees, acquire additional equipment, and invest in necessary maintenance and improvements.

I encourage both railroads to double down on these efforts. Additionally, when rail service begins to improve I would also encourage both railroads to plan for the future needs of rail shippers in our region, especially in light of the projected growth of crude oil transport in the Bakken and increased demand for coal to ensure that all rail shippers receive adequate and efficient rail service.

Finally, I would ask that the Surface Transportation Board approve the pending sale of Canadian Pacific's rail line in South Dakota to Genesee & Wyoming as soon as possible.

While this will not solve South Dakota's rail service issue it will bring certainty to the shippers located on the 660 miles of DM&E line and allow the new owner to begin service as soon as possible.

So I want to thank you again, Chairman Elliott and Vice Chairman Begeman for holding this hearing today and for allowing me to testify and I appreciate the attention that you are providing to this matter and I look forward to working with you as it relates to other items that the Senate Commerce, Science and Transportation Committee is working on.

But I would just close by saying that we have a problem, a serious problem, that's affecting the economy all across South Dakota and it needs to be fixed and I hope that you will work with us to make that possible. Thank you.

CHAIRMAN ELLIOTT: Thank you very much for your testimony. Anything, Ann? Okay.

(Pause)

CHAIRMAN ELLIOTT: Okay. We'll now bring up the final panel, and thank you very much to this panel for its patience.

VICE CHAIRMAN BEGEMAN: We know you've been here since 8:30, too, so thank you.

(Pause)

CHAIRMAN ELLIOTT: Okay. Why don't we begin Panel IX, and we will begin with Ms. Burns, thank you.

MS. BURNS: Thank you. Occidental Chemical Corporation, or Oxy, is a leading manufacture of chemicals which are the building blocks for a range of products essential to public health and modern life.

Oxy employees approximately 4000 employees and contractors at 22 locations. Our products, which are used in water purification, medical supplies, pharmaceuticals, agricultural chemicals, and deicing applications are vital to the United States economy.

Before I begin, Oxy fully recognizes that this has been a brutal Winter. Regardless of the challenges we have been given by Mother Nature, service levels have been unacceptable.

Although our total network has seen disruptions in service due to the severe Winter conditions the plant that has been the most impacted has been our facility located in Taft, Louisiana.

This plant produces potassium hydroxide, otherwise known as KOH, which is used in deicing materials, pharmaceuticals, food applications, and fertilizers. Our operations require a constant, consistent flow of raw materials and service variability makes it nearly impossible to run our operation efficiently.

Our major raw material is potassium chloride, otherwise known as KCL. Oxy buys 100 percent of our supply from Mosaic's Mine located in Belle Plaine, Saskatchewan.

Mosaic is served by the Canadian National and the Canadian Pacific, however, freight is limited on the CN due to weight limitations and the CN track would need to be upgraded before it could be considered an alternative.

Therefore, all of our KCL is transported by CP. The cars interchange in Chicago with the UP for delivery into our

Taft, Louisiana, facility.

Since December 1st we have officially opened 29 shutdown logs for our KCL movements. We have reduced operating rates six times in an attempt to prevent shutdowns. These reduced rates have cost Oxy close to $7 million.

Normal transit times from Belle Plaine, Saskatchewan, to Proviso, Illinois, are typically six to seven days. Average transit time since December have been 11 to 13 days.

We have had instances where our loaded cars have sat idle for up to eight days apparently waiting for power or crews. Over the past several months CP has added approximately 150 cars into Oxy service.

Even with the addition of cars we are hand to mouth with little to no safety stock. At the same time that the number of cars and service increased, we started experiencing a higher number of bad ordered cars or railcars undergoing repairs.

We have also seen significant delays in bad ordered cars returning to service. Most of these cars should turn around within 48 hours. Our current average is closer to eight days.

To address our rates and transit times to our recent problems with transit times, the UP and CP agreed to test the Kansas City Interchange. The trip planned from Belle Plaine to Kansas City is estimated to be nine days.

Our cars were loaded at the mine on April 2nd. As of yesterday our cars were still in Brandon, Manitoba. Seven days after our cars were loaded the cars had only transited 250 miles.

This gives us little confidence in this interchange point and leads us to believe that the issues we are seeing are due to CP operations plans and not the interchange point of Chicago.

The CP's inability to execute agreed to corrective actions is adding to our frustration. Even when new plans to address prior service issues have been agreed to the CP often doesn't execute to the plan.

This impacts all of the other parties in the supply chain. For example, on February 21st the CP committed to expedite a 38-car block to avoid a shutdown situation. Specific departure and arrival times were projected and Oxy and UP aligned operations accordingly.

However, the UP didn't move the cars until two days later which made our plans obsolete and further added to our inefficiencies.

On the brighter side, UP has performed admirably. Time and time again they have stood ready to receive cars from the CP only to receive no cars or fewer cars than expected.

They have done an outstanding job

communicating, reworking plans, expediting movements, putting together special trains, creating extra switches, and building unit trains.

They have helped us avoid a shutdown at our Taft plant on numerous occasions, our thanks to the entire UP team. As mentioned earlier we have experienced problems with other railroads during this period.

Shutdown tickets were opened at two of our Northern plants and we have experienced interruptions in service which affected our plant and customer operations.

Both of these instances were short-lived, the railroads were responsive and we have seen improvements at these facilities. Since today's hearing is also focused on BNSF I would like to mention that we have had increases in transit times at our Wichita, Kansas, location, however, they have been manageable.

In addition, BNSF has done a very good job communicating their recovery plans. Instead of complaining to the Board we would like to make suggestions for improvement and be a part of those solutions.

Possible actions include, continuing to explore the use of unit trains to rebuild our inventory to minimum levels. Unit trains could allow us to quickly rebuild our safety stock.

On one occasion CP has allowed UP to come into the Bensenville Yard and pull Oxy cars. We'd like to know if this practice can continue or can the UP go further North to pick up the cars until we see some improvement in CP transit times.

Things we need from the CP, CP operations personnel appear to be focused on specific geographic areas. We request one senior level operations person at the CP to work with us across the entire pipeline as we work through these issues.

We need proactive planning. We need an overall plan and when things are missed we want to hear the recovery plan rather than discovering the miss on our own.

CP needs to execute the plan. On multiple occasions they have communicated a plan and the plan is not executed. CP needs to better communicate their recovery plans. Other railroads are sending out updates, but we are not seeing this from the CP.

As we unwind from these service issues we need to determine how and why we got here. What can be done differently? What are the contingency plans for emergency situations? What interchanges can be tested and agreed upon before they are needed on a large scale basis?

We're grateful for the opportunity to comment during today's hearing. We are very appreciative of all the assistance that we have received from the Rail Customer and Public Assistant Groups, Lucy and her group have been fantastic.

We're anxious for an immediate solution to our problems, but equally interested in ensuring that plans are in place to prevent such as this in the future.

CHAIRMAN ELLIOTT: Thank you. Ms. Clark?

MS. CLARK: Hi. I'm Gretchen Clark, I'm with NewPage Corporation. Thank you very much for the opportunity for us to come and state our case today.

I'm the Director of Procurement for transportation and warehousing at NewPage Corporation. NewPage is the largest coated paper manufacturer in North America. I have responsibility for all railroad activities and service throughout our organization in our multiple locations.

We have eight mills and two distribution centers. Five of our mills are on CN as well as one distribution center, and I've provided a deck for you to reference.

On Slide 3 it shows NewPage footprint and we have three mills on CN in Wisconsin, one mill in Michigan, and one mill in Kentucky, and our DC is in Chicago, previously they were on the EJ&E, which is now owned by CN. We also have one mill on the BNSF that's in Duluth, Minnesota.

If you move to Slide 4, we currently have shutdown notice with CN for our Wisconsin mills, that's three mills that we rely on them to move loggers, as they reference them, through the Lake States, and we need a minimum of 210 cars.

We did give notice to our shutdown on February 25th and, unfortunately, when we gave notice actually our service diminished greatly, if you see the red line on the graph there, went below even the average of 155 cars a week.

We have seen significant improvement though I would like to say within just the last two weeks, which happen to be when we gave notice that we were talking to the STB.

So we do have some cars that have been pulled out of storage and we are awaiting another 90 cars to come out of storage. However, tomorrow we will be hitting one of our lowest days on-hand inventory of hardwood, which will be 2-1/2 days, that supports all three mills.

On the next page you'll see what a requirement is versus, you know, how many we order versus what is spotted. We are ordering around 275 cars on average a week. We are allocated around 150.

And, as I said, we gave official notice to CN on February 25th for all of our Wisconsin mills to shutdown by April 27th if the continued service remained at that level, and, as mentioned, unfortunately, it got worse and now we're looking at an April 17th shutdown date for all three mills.

I'd like to go ahead and move onto

the next slide, 6, which actually discusses our Chicago Heights Distribution Center. We are supposed to be getting six switches a week and what we have been experiencing is six switches for January, we had three switches in February, and in March we received six switches.

So I was able to speak with Mr. Liepelt when he was here and he's going to be looking into that situation for us. So we have been suffering service on the last mile greatly with CN, previously on the J.

Next is our Duluth mill in Minnesota. We have greatly been impacted by our car supply, we use the 50-foot boxcars, lack of car supply and also an issue with high percentage of rejects in that fleet.

We are running at around 20 percent of rejected placed empties that they give us. They have gone the extra mile and put in a reinspection track where they are actually rejecting approximately 50 percent of their own fleet prior to it getting to us.

So our mill is actually a 90 percent rail mill and because of the lack of car supply as well as the bad order issue we are now down to 50 percent on our rail out of that mill, and so we're very dependant on rail at all of our locations, we are captive shippers.

So due to the lack of the car supply, transit times, doubling or even tripling, if you have to go through BNSF's Northtown or Chicago, or we needed hardwood in the Lake States.

And if we happen to fall into the black abyss of a bad ordered railcar, NewPage has had to remake paper and ship paper on truck to the open spot market, purchased additional pulp on the open market, and called for emergency and bound material via truck.

It has cost NewPage millions and millions of dollars, upwards of $20 million. Our communication has been good with the railroads. We just need them to act on what they say they're going to do really, but the communication with BNSF and CN has been good.

CHAIRMAN ELLIOTT: Thank you very much.

MS. CLARK: Thank you for the opportunity for us to speak.

CHAIRMAN ELLIOTT: Thank you very much, Ms. Clark.

MR. MANNA: Good afternoon, Chairman and Vice Chairman. I want to start off by thanking you for holding this hearing today. Please note all of my comments today are respectfully submitted.

My name is Adam Manna and I am the General Counsel at Northdown Industries, Inc., which operates through its sister corporation, Normerica, Inc., for all businesses occurring in Canada, our head office being in Toronto, Canada.

We are the leading manufacturers and suppliers of various pet products, including our primary product, cat litter. We are the largest private-labeled cat litter manufacturer in all of North America.

We have four manufacturing facilities in North America which are located in Brantford, Ontario, Lethbridge, Alberta, Dyersburg, Tennessee, and Glendale, Arizona.

Today I'm here to discuss our struggles with the shipment of sodium bentonite. The primary raw material in clumping cat litter is sodium bentonite, which is mined and processed by our vendors in Wyoming.

Sodium bentonite is then shipped by railcar through BNSF, CP, and CN to all of our facilities. In particular, BNSF services all of our facilities while CP also services our Brantford and Lethbridge facilities.

Both CP and BNSF hold captive locations on the routes from our vendors location in Benton in Wyoming, to all of our facilities.

The services we have received from CP and BNSF have been highly unsatisfactory. I'll start with CP. My Company spends approximately $7 million annually on CP freight and rail services, and I'll address some of the major issues and problems we've been experiencing.

First is delaying or failing to provide sufficient railcars to our vendor causing shortages of clay. For instance, in December 2013 to February 2014 CP provided us with only 171 railcars out of 404 railcars orders. This is less than a 50 percent fail rate.

Continuously departing markedly from its own estimated timelines. For instance, deliveries to our Brantford facility range anywhere from nine days to 35 days. Delivery shipped to our Lethbridge facility range anywhere from seven days to 32 days.

Even though CP attributes these delays to BNSF, the fact remains that even when the cars arrive in Lethbridge they're regularly held for an extra two to four days for what is construed as processing times.

Third is failing to provide timely and accurate updates to estimated times of arrivals. Fourth is bunching. When rail cars do finally arrive, they all arrive bunched. We do not have the labor capacity to handle these arrivals at once.

We place our orders with plenty of lead times an space them out, nonetheless, all the cars when they do arrive, arrive at once. Some of the consequences that we have to incur for these problems are as follows.

It's been talked about today, but one of the primary issues for us is demurrage. In the past year we have incurred demurrage charges amounting to approximately $83,000 owing to CP's failure to meet its estimated timelines.

In fact, Normerica has received demurrage fees from CP, BNSF, and CN totaling over $500,000 in the year 2013 alone. Additional labor costs, it's virtually impossible to plan logistics resulting in inefficient use and utilization of our resources, most notably idle labor and plant shutdowns.

The trickle down effect unfortunately goes to our employees who often get told that they don't need to show up for work and are unable to bring a paycheck home to their families.

Third is the additional freight cost. We are forced to redirect our orders from our other facilities, which over the past year alone out of our Lethbridge plant has cost us over $300,000.

And last but not least, and a very important point to us, is contractual penalties from our own customers. Due to shortages of clay in our facilities we've had to pay sales contract penalties to customer for our delays or failures to meet our contractual production commitments.

In 2013 alone these penalties amounted to over $1.5 million, none of which we're able to recoup from the rail companies. These costs are solely attributed to Normerica's inability or failures to meet our contractual production commitments.

Now I'll move quickly over to the issues we were experiencing with BNSF, many of which are the same which I just discussed with CP.

With BNSF we spend approximately $10.2 million annually on freight rail services. Problems that we are experiencing are failure or delay providing sufficient railcars to our vendor causing shortages, continuously departing markedly from their estimated timelines, deliveries shipped to our Dyersburg facility range anywhere from nine to 29 days, and for our Arizona, Glendale facility, which BNSF is the sole rail service provider, 90 percent of all railcars shipped arrive outside of their own trip plan, and, of course, third is bunching. Again, when the railcars do arrive they are all bunched.

As previously mentioned today, it doesn't matter how much notice we provide or how much time and effort we put in, or resources in trying to figure a proper ordering plan or pattern, when the cars arrive, they arrive bunched. I just have a couple more minutes if that's okay?

And the consequences to the issues are the same as before, demurrage, additional labor costs, contractual penalties from our customers, being forced to ship products from our other facilities, shutting down our plants in its entirety, all of which is adding up to millions of dollars.

A common theme for us at our office is devoting numerous amounts of time and resources to the rails. It's not good enough that we have full-time support staff specifically devoted to dealing with the railways.

Now our entire management team, from our CEO down to myself as General Counsel, must deal with the rail issues on a daily basis.

Moving to our recent correspondence, as I know an issue today has been communication. We have repeatedly vocalized these service issues with both BNSF and CP, but their responses are always the same.

It's either the fault of the other railway carrier and if no other railway carrier is involved then it's the weather's fault. Specifically in February 2014 we sent a letter to CP summarizing all of these service issues and their impact on our business.

The response we received from CP was less than satisfactory as it placed blame on the weather and, of course, sometimes BNSF, not to mention congestion issues, which they bring up the Chicago terminal.

In closing, the problem is that neither CP or BNSF is willing to take any concrete steps to truly help us out. For instance, even though both CP and BNSF agree that service levels have suffered in the past quarter, neither company is willing to hold themselves fiscally accountable.

For instance, this is the third year in a row that Normerica has received a price increase from CP of 5 percent to our Brantford facility and 6 percent to our Lethbridge facility.

In short, price increases are imposed on us regardless of the service levels that we've been provided with. In what other industry is this possible?

We cannot realistically impose these fees on our customers despite unsatisfactory service levels. The railway companies shouldn't be allowed to do this to us either.

Based on the points that we've addressed today it's just really unreasonable. On top of all this as a Canadian corporation we're forced to pay all of our fees in U.S. dollars, coupled with the new exchange rate, all of these charges are really hitting us financially.

The poor service levels we receive have been so detrimental to our business that valuable customers repeatedly threatened to take their business away from us and has caused a huge strain on our business relationships.

Again, I appreciate that we don't ship coal, or oil, or grain, but our customers are some of the biggest retailers in North America and the United States.

We ship to the Costcos, the Sam's', the Wal-Marts, and the Wawas of the world. They don't accept our excuses and they still impose heavy fines on us when we can't ship them their product.

We're here today because our corporate existence is at stake and we appreciate the opportunity to speak in front of you today. Again, we appreciate where BNSF and CP are coming from, but in today's world actions do speak louder than words. Thank you for your time.

CHAIRMAN ELLIOTT: Thank you, Mr. Manna. Mr. Burket?

MR. BURKET: Excuse me. Good afternoon, Chairman Elliott, Vice Chairman Begeman. My name is Jeff Burket. I'm the Global Supply Chain Manager for AMCOL International Corporation.

We're a publicly traded Company with an annual revenue of approximately $1 billion. AMCOL is a major producer of bentonite, which is an ore composed of a clay mineral formed from volcanic ash.

Bentonite is used in hundreds of ways from waterproofing to the production of brake rotors. Much of the bentonite that we produce ultimately winds up being used in rotors for a substantial percentage of the automobile manufacturing in the United States.

Accordingly, rail service delays in the movement of our product can have downstream impacts on a broader segment of the Unites States economy.

Our two major bentonite production facilities are located in Wyoming. We produce a total of two million tons of bentonite each year at those two facilities alone. Given the large volumes and distance involved we depend upon the availability of rail service to move our product.

Canadian Pacific is the only rail carrier capable of servicing our Colony, Wyoming, facility. BNSF is the only rail carrier capable of serving our Lovell, Wyoming, facility.

We spend in excess of $40 million annually on CP rail service for our bentonite traffic. Notably, the CP line that we use is the same line that the CP recently agreed to sell to the Genesee & Wyoming.

Since the January to February time period this year the quality of the CP and BNSF rail transportation from our two Wyoming plants has suffered tremendously.

This service has impacted AMCOL directly and severely. We have incurred substantial costs for truck service where rail service was unavailable.

We have incurred significant overtime costs for employees dealing with the repercussions of poor railroad service. We have incurred meaningful and potential lasting harm to our reputation as a business and we have lost large volumes of sales because of the inability to move our product to market.

In addition, our customers, including the Tier 1 suppliers to the U.S. automotive industry have experienced many significant problems and even some plant shutdowns because of the inability to receive supplies of our products.

We're hearing from those customers on a regular basis and unfortunately we have been unable to give them any assurance that railroads will be able to restore service to the historical levels.

CP's service quality to our plant began to decline around the time of its announced sale to the G&W. CP's service has remained poor since that time. We are seeing transient times on the CP that are doubling or tripling their historic averages.

In addition, there have been a significant shortfall in available equipment on the CP system. We have no direct information on the cause of the shortfalls or regarding whatever resource allocation decisions CP may be making with respect to the locomotives, the crews, and the railcars.

But CP has routinely shorted AMCOL over the past two months on the number of system cars available for our use. In that regard we historically have received approximately 90 to 120 system cars per week from the CP for service, but during the past two months CP has provided on average only 46 cars.

As a result of the CP's deficient service at Colony we have been required to secure the transportation of bentonite in trucks on an emergency basis.

The cost associated with this truck service for February and March alone has been $1.5 million more than we would've paid to move the product on rail.

That emergency service involved approximately 350 truck trips. In addition we estimate that we have lost another $1.5 million in sales during these two months because of CP's service delays.

BNSF's service also has been problematic for us. BNSF's service difficulty started in January of this year. As with other CP sur-plants our BNSF sur-plant is

Lovell, Wyoming, is running well short of the number of system cars that is needed to meet demand.

We estimate that we have lost $1.75 million in sales because of the BNSF service. Again, AMCOL wishes to stress that the current railroad service levels are impacting not only AMCOL, but also our customers and also the broader economy.

In conclusion, we thank the Board for the opportunity to appear here today and we respectively request that the Board take all steps in its powers to restore fluidity to the CP and BNSF rail systems. Thank you.

CHAIRMAN ELLIOTT: Thank you very much. Mr. Powell?

MR. POWELL: Chairman Elliott and Vice Chairman Begeman, thank you for your time this afternoon, I know it's been a long day for everybody.

I'm going to move a little bit to passenger railroad. I'm the President of the

Leading Rail Vacation and Tour Company in the United States. We have a subsidiary in the United Kingdom.

Rail service and passenger rail is a vital importance to our business customers and local economies that rely on the impact of tourism in their community.

The continued delays and congestion impact directly the passengers, people, not just oil, coal, agriculture, and other freight. Although over the years Amtrak has had, it's been commonplace to have some delays.

Recently, significant longer delays have negatively impacted our business, our customer's experience, and at times the health and safety of our travelers.

In fact delays in as much as eight to ten hours have plagued Amtrak's Empire Builder, Amtrak's daily train operating between Chicago and Seattle.

And, as a result, literally

thousands of Amtrak passengers and their families have suffered an extreme inconvenience and often considerable personal expense, and many of these travelers are vacations by rail customers.

Delays have resulted in the following, passengers, including families, children, senior citizens, being stranded at times at unstaffed stations as they wait for their train for hours at times.

Trains running out of food and water as a result of considerable delays, problems with lavatories and overall sanitation onboard the trains, and passengers, at times, arriving eight, ten, or sometimes 12 hours late into unfamiliar cities and towns resulting in no connecting transportation, lack of staff, and security.

The inability to rely on published schedules of long distance trains negatively impact our business and other people who plan their vacation and holiday travel, because they cannot plan events on the days a train is due to arrive for fear of late arrival.

They cannot recommend connecting transportation within eight hours of a train arrival. And, additionally, there's unplanned expenses for companies such as Vacations By Rail and other tour companies when a train arrives considerably late, later than it's scheduled arrival time.

These delays are really blemishes on United States Government as the owner of a National railroad passenger corporation and it negatively impacts the equity of Amtrak's brand which is known throughout the World.

These types of delays would not be tolerated in other industries, and certainly not the airline industry, which now has its own Bill of Rights.

What we're asking is that this Board establish an oversight committee for passenger rail and assistance for passenger rail and compel the freight lines and Amtrak to adhere to on-time performance standards and live up to their statutory obligations that they have and also provide consumers with some type of recourse against the railroads for failure to meet their performance standards.

As part of that we would like to see a published railroad Bill of Rights that allows people compensation in real dollars if trains are delayed, hotel accommodations and meals if trains are delayed for a certain amount of hours, ultimate transportation, even by air if missed connections are the result of the trains being late and connections not being made, and a possible full refund of tickets are the some of the ideas that we've come up for with a Bill of Rights.

But not only does this impact our business, but it does impact the local economies, using Glacier Park as an example. In 2013 Amtrak served over 87,000 passengers to four train stations in Glacier National Park.

One-third of those travelers are typically vacation travelers and the impact alone on an aggregate level is about $4.6 million per day to the local economy for those passengers staying that area.

This is real money to the local economy resulting in jobs and opportunity and when the train's do not on time it deters travelers from continuing to chose those destinations that are served by long distance trains and impedes the ability to spend money in a local economy.

In fact I know that this year alone some other rail tour operators have changed their itineraries so not to include some of Amtrak's long-distance trains, particularly the Empire Builder because of the risk that is involved in the trains arriving late.

Now the last 12 months Amtrak has been, particularly the Empire Builder, has been 20 percent, had an on-time performance of

20 percent and in February it was only 11.6 percent.

It seems like the answer that Amtrak and BNSF has come up with was to add three hours to the schedule of the Empire Builder. The Board should ensure that this is only temporary because what this is really doing is changing the grading scale so that a D is now an A.

So we respectfully request that the Board look at passenger rail and how it can be involved and provide and oversight made up off passengers and consumers so that they can be involved in such decisions as to change schedules and fares and provide recourse for our passengers. Thank you for your time.

CHAIRMAN ELLIOTT: Thank you, Mr. Powell. Questions?

VICE CHAIRMAN BEGEMAN: Really, I just want to thank you all, especially given, I saw you all here this morning, at least most of you before 8:30. Even though you're on the last panel your testimony is just as important to us as if you were on the first.

Ms. Burns, obviously, we know that you have been pulling your hair out, along with members of our staff, trying to prevent shutdowns. Folks here will continue to try to help you.

As I said at some point during the day, we are holding the carriers accountable to do what they say they can do, what they will do.

They've been clear, it is not going to change tomorrow or even next week, but within let's say a month, Chicago is supposed to be a lot better, things are supposed to be a lot better.

I think maybe six weeks was someone's time frame, but I don't consider this to be over when this hearing adjourns. I know I will certainly be monitoring, we'll be looking at the data, we'll be reading the press, we'll be watching and working.

I hope that you will communicate with our customer assistance folks. We can and we also don't want to cause harm, or unintended consequences despite our best intentions.

Thank you for your amazing patience. Hang on a little longer.

CHAIRMAN ELLIOTT: Yes, similarly, I just want to thank you very much for coming in today and I know it's been a long day and, as the Vice Chairman mentioned, this is not over.

We intend to pursue other meetings like we did in North Dakota and try to work with people as much as possible. We heard some commitments, some very strong commitments from BNSF and CP today, and we do intend to hold them to those commitments and we will keep pursuing this and keep watching it until the problem is solved.

So, thank you very much. I think that is the end of the hearing. So, thank you everyone for coming and thank you for everybody that's helped out today, we greatly appreciate it.

Thank you everyone for your testimony and the hearing is hereby adjourned.

(Whereupon, the hearing in the above-entitled matter was concluded at 3:49 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: US Rail Service Issues

Before: US Surface Transportation Board

Date: 04-10-14

Place: Washington, DC

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

Neal R Gross

Court Reporter

National Farmers Union

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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, DC 20423-0111

RE: Docket No. EP 724

On behalf of National Farmers Union's (NFU) members, I appreciate the opportunity to express my concerns regarding recent service problems in the U.S. rail network, specifically in Montana, North Dakota, South Dakota and Minnesota. Please note that I am providing copies of North Dakota Farmers Union's testimony at their request. In addition, Montana Farmers Union submitted written testimony and South Dakota Farmers Union is also represented in a later panel. I also commend the Surface Transportation Board (STB) for holding a stakeholder meeting in North Dakota to address some of the issues.

NFU is a grassroots-driven family farm organization that represents roughly 200,000 family farmers and ranchers in all 50 states. A large portion of our membership is located in Montana, North Dakota, South Dakota, and Minnesota. These are the states most affected by the recent Canadian Pacific Railway Company (CP) and BNSF Railway Company (BNSF) rail transportation delays.

NFU has long advocated for the protection of captive shippers. In fact, this is one of the issues at the core of our organization's creation more than 100 years ago. Access to rail transportation continues to be one of the most important factors in the prosperity of rural America. Farmers need an affordable, readily accessible and reliable transportation system. This is crucial as they continue to meet the growing and changing demands of American and global consumers.

NFU is very concerned about the service problems on the CP and BNSF systems. Our members report that there is a significant lack of railcars at their elevators, which leads to delays and additional costs that the elevators then pass down to farmers. The delays are caused by two factors: unusually cold weather and a low priority for agricultural goods in the face of significantly increased rail traffic specifically related to coal and oil.

The former reason is understandable but is transitory. Under extremely cold conditions, trains need increased horsepower and cannot haul as many cars as under normal conditions. BNSF's trains are usually between 7,000 to 8,000 ft. long. But, under the cold weather conditions (negative 20 or 30 degrees) trains can only handle 5,000 ft. This past winter was unusually cold. In North Dakota, for

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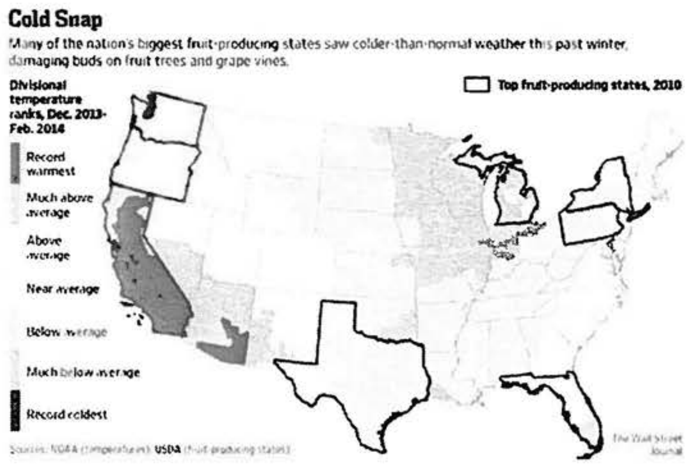
instance, average temperatures in December, January and February were about 7 degrees colder than the average temperatures in those months over the past 20 years.[1]



As is stated in Montana and North Dakota Farmers Union's testimonies, unfortunately, agriculture does not seem to be a priority for CP and BNSF. It seems that oil, coal and container shipments are ahead of grain in the list of shipping priorities. Oil production in the Bakken shale formation of Montana and North Dakota has led to a tremendous boom in production. Compared to this time last year, the Bakken is producing around 1.1 million barrels of oil per day, up from 800,000 barrels per day in April 2013[2] which is up from 200,000 barrels per day in 2009, which is the last year I served as North Dakota Agriculture Commissioner and regulated the oil industry. This increase in production has put pressure on companies such as BNSF.

Similarly, there has been an increase in coal exports from the Powder River Basin to the Pacific Northwest. The Western Organization of Resource Councils (WORC) recently released a study, "Heavy Traffic Still Ahead" (which I wish to submit for the record) showing that coal exports to the Pacific Northwest have more than doubled since 2012. These increased volumes of coal and oil shipments have displaced grain shippers, leading to long, expensive delays.

Because there are fewer cars and agricultural commodities are not prioritized, there are long delays in grain shipments. Our members in North Dakota and South Dakota report delays of around 17 to 40 days. Montana Farmers Union reports delays of around 28 days.

Delays are very costly because end-users impose stiff penalties for late shipments. As is referenced in North Dakota Farmers Union's testimony, when delays exceed five days, penalties are $.05 to $.10/bushel per day. Grain elevators contract with these end-users and ultimately have to widen the basis in order to cover the cost of the penalties, thus decreasing the cash price and passing these

[1] North Dakota State University http://www.ndsu.edu/ndsco/publication/current.pdf
[2] Energy Information Agency http://www.eia.gov/petroleum/drilling/#tabs-summary-2

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increased costs on to the farmer in the form of lower prices for the commodity being shipped. The cost of shipping delays amounts to approximately $0.40 to $1.00 per bushel of wheat, which translates to a loss of $9,600 per average farm, at minimum. This situation is unacceptable.

Commodity groups such as wheat have spent a lot of time and money building relationships with customers. Because U.S. wheat is seen as being delivered reliably, it is often paid a premium for the timeliness of delivery. With the ongoing delays, these relationships with customers are at risk.

I encourage the STB to address the problems of captive shippers. In particular, I urge the Board to hold railroads responsible for losses due to delayed delivery of rail cars. BNSF and CP need to guarantee that a certain portion of shipments will be dedicated to agricultural products. BNSF and CP need to ensure that there is increased investment going forward to account for the increased demand.

Finally, as I know you are well aware, this area of the country has for many years faced non-competitive rail rates due to consolidation in the rail industry and the resulting lack of effective transportation competition. The recent oil and coal production increases have now placed further obstacles to fair, competitive rate treatment on agriculture and is a long term problem that needs to be addressed.

I appreciate the opportunity to express NFU's concerns to the STB. I hope that the STB will take this issue seriously so that family farmers and ranchers can benefit from immediate and long-term solutions to current rail problems. Thank you for your consideration.

Sincerely,

Roger Johnson

Roger Johnson
President

20 F Street NW Suite 300 Washington, DC 20001 P: 202.554.1600 F: 202.554.1654 www.nfu.org

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PLAINS GRAIN & AGRONOMY

Plains Grain & Agronomy, LLC • PO Box 6 • Enderlin, ND 58027 • 701-437-2400

Good morning Chairman Elliott and Vice Chairman Begeman. Thank you for holding this important hearing. Thanks for sending Tom Brugman to North Dakota on March 26th to hear from shippers.

My name is Keith Brandt, Gen Mgr of Plains Grain & Agronomy (PGA) at Enderlin, ND. I'm also here on behalf of the North Dakota Grain Dealers Ass'n, a 103 year old association representing the interest of hundreds of grain elevators of all sizes across our state. I am a past president of NDGDA and currently serve on its Transportation Committee.

NDGDA has appeared before this Board on numerous occasions regarding rail service, mergers, fuel surcharges, and the common carrier obligation, to cite a few. Past STB Chairwoman Morgan and past Chairman Mulvey, Nottingham, Buttery, and Nober have been guests in our state. In other words our state association has been heavily involved.

PGA is located in southeastern North Dakota on the mainline of the Canadian Pacific railroad with shuttle loading capacity there. We have a branch location, which can load up to 27 cars, on the Red River Valley & Western railroad. Within 30-50 miles there are six BNSF shuttle loading stations that surround us.

PGA was formed to accommodate the requests of North Dakota's two Class I railroads, Canadian Pacific and BNSF, for fast shuttle loading to receive priority service. Comments today center around the serious service issues. Cycle times on shuttles have fallen from 2 – 2.5 turns per month to half of that at best. For the record,

PGA is waiting for a February 17th shuttle order to be filled and a February 4th singles order to be filled. There are orders on either railroad for various shipment sizes that are far older than these. The smaller orders lag the most.

The lack of service by the CP for PGA goes back a few years. We first started loading out of our new shuttle loading station in 2003. We peaked at loading 6158 cars during the 2008-2009 crop year. We have never gotten back to that number. To receive grain from our customers in spite of poor service by the CP, we truck grain to competing railroads or take excessive risk to pile grain in outside locations. This increases expense and reduces profit.

This past harvest we loaded over 300 cars of corn on the RRVW that went to an ethanol plant located on the main line of the Canadian Pacific. This plant prefers the RRVW to deliver corn to them because of their timely and consistent service.

Because of untimely and inconsistent movement on the CP, we are constantly faced with discounted bids from buyers of 5-10 cents per bushel. Oftentimes trains and other shipment sizes on the CP sit for two-three weeks after billing before being pulled away. While the CP doesn't have sufficient power to move its own equipment, it leases power to other railroads.

This inconsistent service by the CP is evident across the state over the last 10 years with the expansion of shuttle loading elevators, fertilizer storage hubs, ethanol plants, and propane storage hubs not locating on their railroad.

We continually hear how cold weather effects the movement of rail traffic. In North Dakota there are a few months every year of cold weather and snow. Just a little colder some winters and a little more snow some winters. This has always been the case and railroads should have learned to operate in these conditions.

Much has been said about the development of oil drilling in North Dakota. Many grain elevators believe the increased attention to oil by railroads is at the expense of grain. Tanker cars clog sidings and yards and move before anything else. This consumes power and crews.

NDGDA recently sent information to the office of Compliance and Government Assistance indicating oil on rail had increased six-fold from 2011 to 2013. While oil has proved to be good revenue to both railroads, some balance of car movement needs to be maintained. Oil wells don't quit pumping but grain elevators quit dumping.

Many elevators go to extremes to load cars in cold weather and snow storms. They do this to reduce penalties for shipments already late and to reduce lost revenue from grain that might have gone somewhere else. But railroads can miss their commitments by weeks and suffer no consequences to their customers.

PGA has a great opportunity to exceed those car loadings of 2008-2009. But we don't see plans and we lack confidence that the CP can make it happen.

We encourage this Board to hold more events like this in areas of the nation where grain is grown and loaded on rail. Give the benefit to the rail customers to speak and place the burden on the railroad lobbyist to travel to where their bread is grown and buttered.

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TESTIMONY

OF

D.J. STADTLER, VICE PRESIDENT OF OPERTIONS

AMTRAK

BEFORE THE

SURFACE TRANSPORTATION BOARD

THURSDAY, APRIL 10, 2014

10:00 a.m.

395 E. Street SW, WASHINGTON, DC 20423-0001

Good morning, and thanks very much for the invitation to testify today. It's an honor to appear here on behalf of Amtrak, and I appreciate the opportunity to discuss the issues pertaining to on-time performance (OTP). As you know, Amtrak is America's intercity passenger rail provider, and we operate the vast majority of the trains classified as "intercity passenger service" in America. Our services range from trips of 62 miles in duration on our New Haven to Springfield, Massachusetts service, all the way up to 2,438 miles on our *California Zephyr*, a long distance train that connects Chicago with the San Francisco Bay Area. About 70% of our train-miles are run on a host railroad, and there are very few Amtrak services that do not depend on effective host railroad handling for at least a portion of their trip. Even our New York to Boston Northeast Corridor services run over a 56 mile segment of Metro-North Commuter Railroad. Consequently, all of us who are here today have an interest in a fluid and well-run railroad system.

This matters because in addition to Amtrak's statutory right to preference established by Congress, the 2008 Passenger Rail Investment and Improvement Act, or "PRIIA", was intended to give Amtrak an effective set of tools to ensure a high level of host railroad performance, and it addressed the OTP issue specifically. Section 213 of PRIIA empowers the Surface Transportation Board to initiate an investigation any time the on-time performance of an intercity passenger train falls below 80 percent for any two consecutive calendar quarters; failure to meet the service quality standards set by Section 207 of the same Act is likewise a reason for the STB to take action. Other entities, including Amtrak, are also empowered to request an investigation.

While the process of determining the metrics and standards consumed quite a bit of time, we believe that the freight railroads took this act seriously, and immediately after PRIIA passed, there was a gratifying upturn in the way in which virtually all of our long distance trains were handled. This first slide will show you how performance has risen and fallen since 2006, when our long distance trains turned in the worst average endpoint on-time performance since 1973, an appalling 30%. Long distance on-time performance rose to 54% in FY 2008, and again to 75% in 2009. Although it dipped to 63% in FY 2011, it was generally at or above 70%, on an average annual basis, through the end of FY 2013.

This trend of performance was very high by historic standards, and it has contributed to the general pattern of revenue growth that has helped Amtrak improve its financial performance in recent years. There was, however, a legal question about the metrics and standards that were established by PRIIA Section 207. After judicial review, the US Court of Appeals for the District of Columbia held in July, 2013 that the statutory process used to determine those metrics and standards was unconstitutional. While I won't venture an opinion about that decision, I have a very definite opinion about the operational impact this decision has had on our services: we saw an immediate drop in on-time performance across the board that was directly attributable to train handling by the host carriers. This next slide, which shows minutes of delay due to freight train interference on a monthly basis for the entire Amtrak system, chronicles the increase that followed the Appeals Court decision; these are typically delays that are attributable not to weather or infrastructure condition, but simply to conflicting freight movements, although there are obviously some circumstances in which those other conditions could contribute to this kind of interference.

This is not a problem that's confined to a single carrier. The next slide, which I will show you, compares the minutes of host-responsible delay per ten thousand train miles for each of the six Class I carriers; delay on each has grown substantially over the same period in the preceding year, and we have seen a corresponding fall in long distance train on-time performance. By the end of the first quarter of FY 2014, long distance train performance at all stations had fallen a total of 11.4 percentage points over the previous year, and by the end of March the decline had grown to a total of 16.2 percentage points, with a long distance system average of just 43.1% for the year to date. Individual service averages were for the most part banded by the high of 77.0% (*Auto Train*) to 30.7% (*Lake Shore Limited*), with an outlier on the low end of the bracket – the *Empire Builder*, which arrived on time at its stations a mere 19.6% of the time in FY 2014, through the end of March. This next slide will show you the different causes of delays to the *Empire Builder*; as you can see, on all of its hosts, freight train interference is the single largest cause by a very wide margin.

The *Empire Builder* is a particularly important service for the region it serves, since it reaches an area that does not have a paralleling interstate highway system or intercity bus service, and very limited essential air service. Passengers depend heavily on the service, but we are not providing them with the kind of service they deserve: in the first quarter of FY 2014, nearly 100,000 *Empire Builder* passengers arrived late at their destinations. The rates of delay, measured in terms of minutes of delay per 10,000 train-miles, have risen dramatically in FY 2014. Freight train interference rates have nearly tripled, and this indicates not only that there are more delays, but that those delays are of longer duration. In response, ridership and ticket revenues have fallen by 15%, year over year to date. The chronic nature of these delays, as well as their growth in duration, has forced us to add an extra set of equipment to the pool used to provide the *Empire Builder* service and temporarily added up to three hours to the schedule, in coordination with BNSF to support its recovery efforts.

While I am cautiously optimistic about our ability to jointly address the issues that the *Empire Builder* confronts with our host railroads, BNSF Railway and Canadian Pacific, I want to close by returning to the larger issue of systemic delay growth. I think the data shown in this last slide are consistent with what we've seen elsewhere, and even when weather is taken into account, paint a picture of a larger trend. Amtrak services nationwide, and particularly the long distance trains shown on this slide, are experiencing growing levels of delay on host railroads. If this is not addressed, it will translate into significant impacts to our service, our passengers, and our bottom line. We want to avoid that, and we prefer to address and fix this system-wide problem by working cooperatively with our host railroad partners. We do, however, have an obligation to provide the traveling public with the level of service mandated by the statute, and we therefore believe that the STB could significantly assist us by monitoring the statistics Amtrak publishes and asking the freight carriers to report periodically to the STB on their handling of Amtrak trains. We believe this would help us to ensure that the public interest in a safe, efficient and reliable intercity passenger rail service is safeguarded in the years to come.

TESTIMONY OF

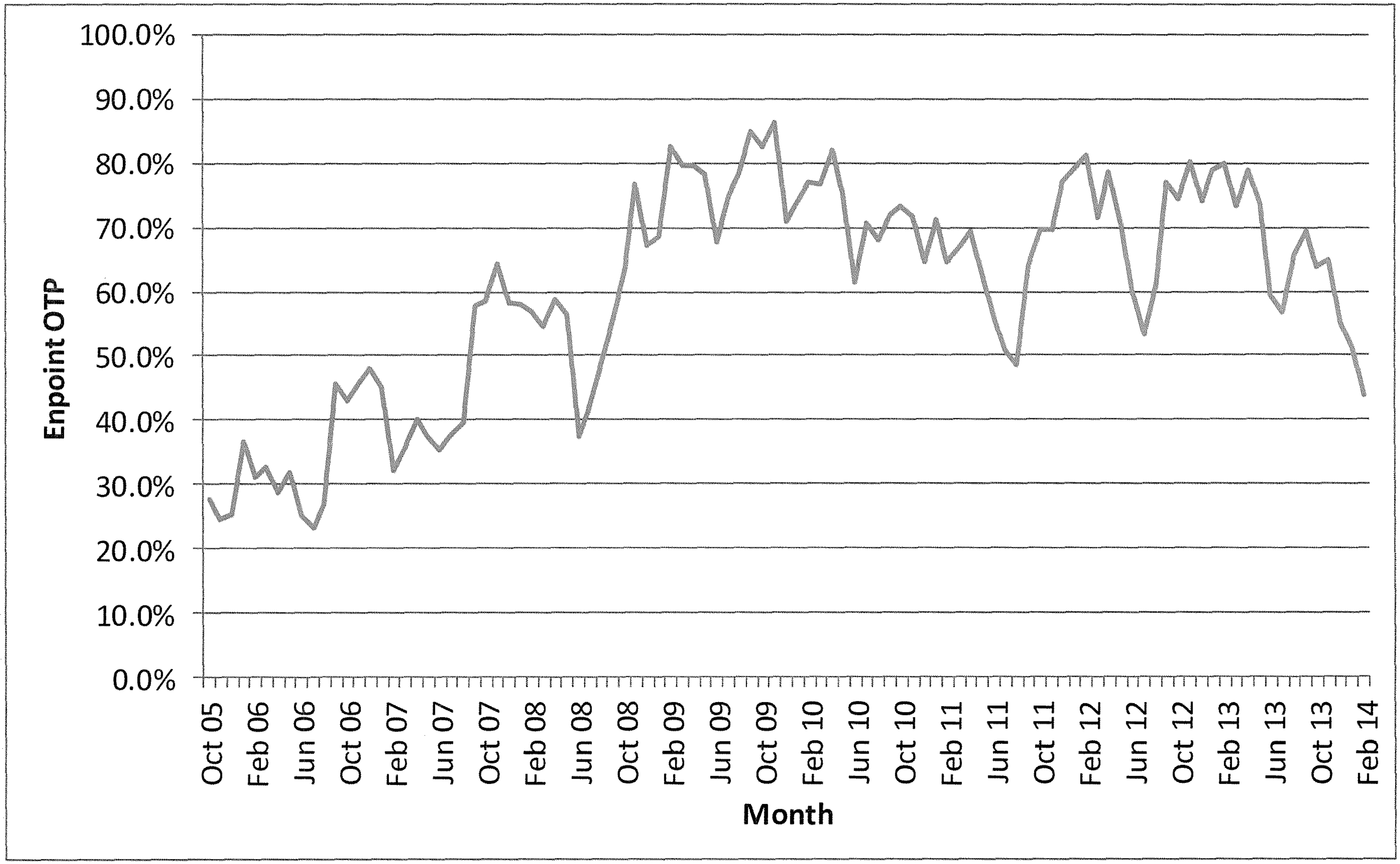
DJ Stadtler
VICE PRESIDENT OF OPERATIONS
AMTRAK

BEFORE THE

SURFACE TRANSPORTATION BOARD

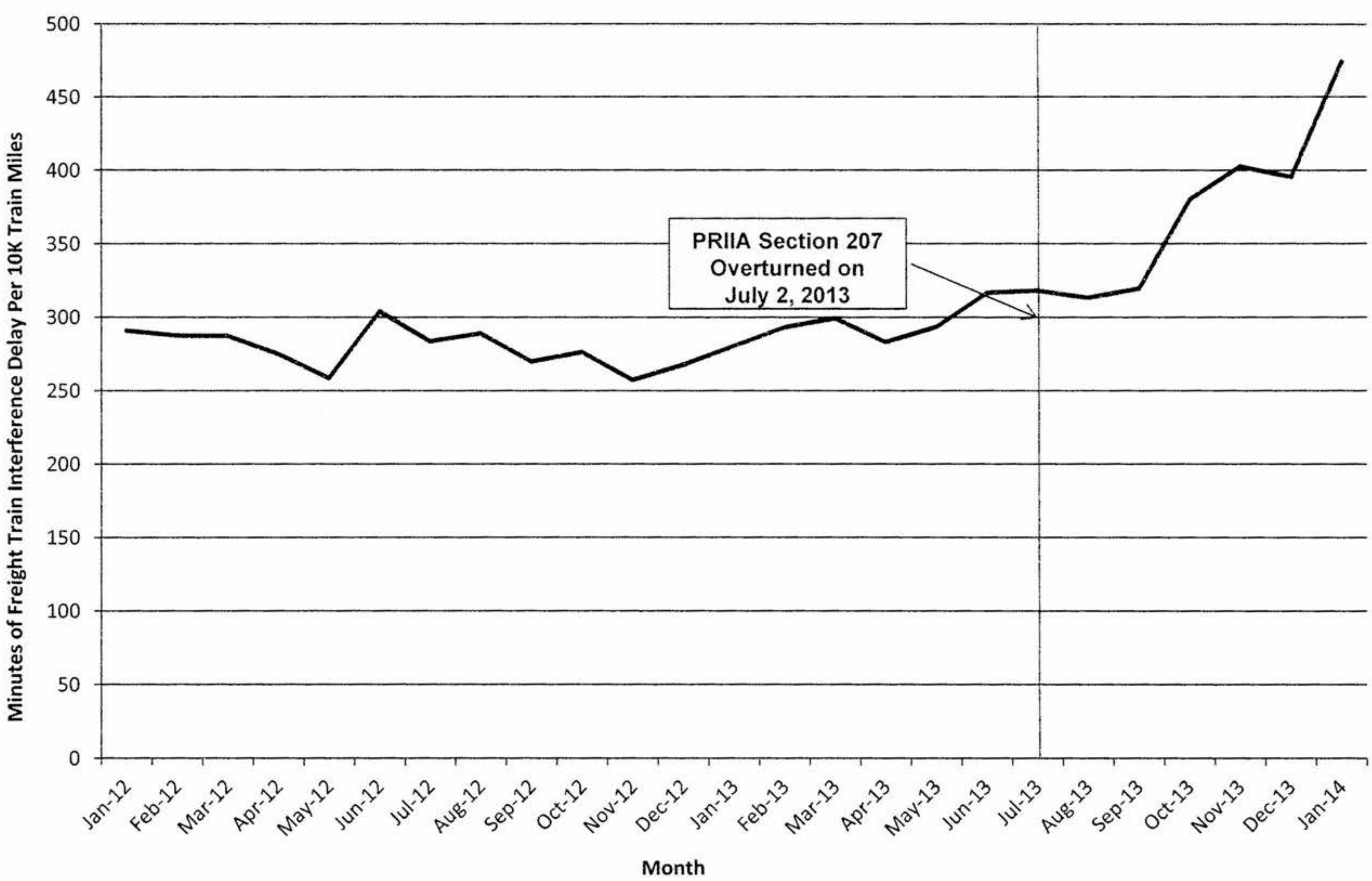
THURSDAY, APRIL 10, 2014
10:00 A.M.
395 E STREET SW, WASHINGTON, DC 20423-0001

Long Distance on-time performance, 2006-present



AMTRAK®

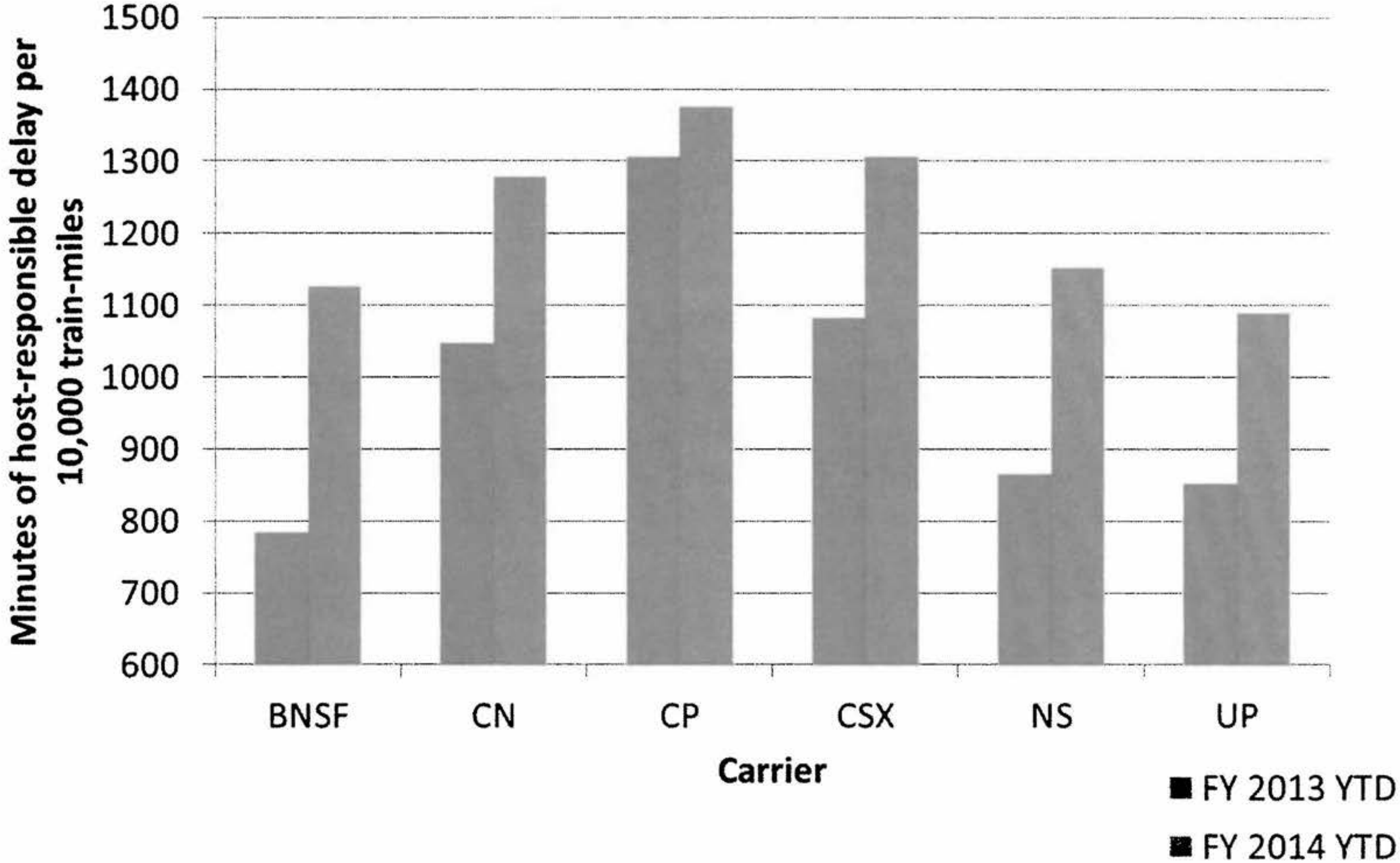
Freight Train Interference Delays on the Major Freight Host Railroads



Major Freight Hosts are BNSF, CN, CP, CSX, NS, and UP.

AMTRAK

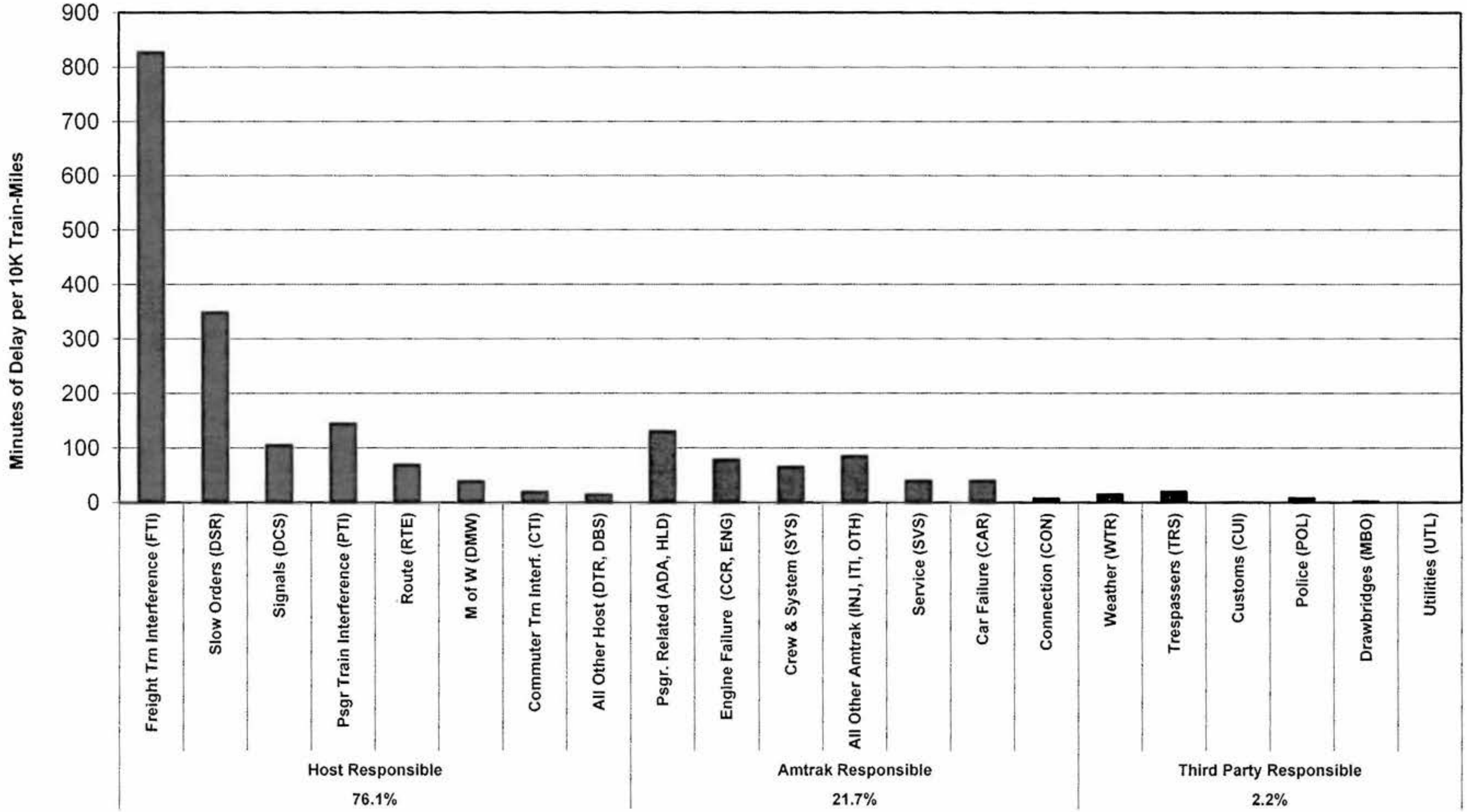
Minutes of Host-Responsible Delay per 10,000 train-miles



Freight train interference is the single largest cause of delay

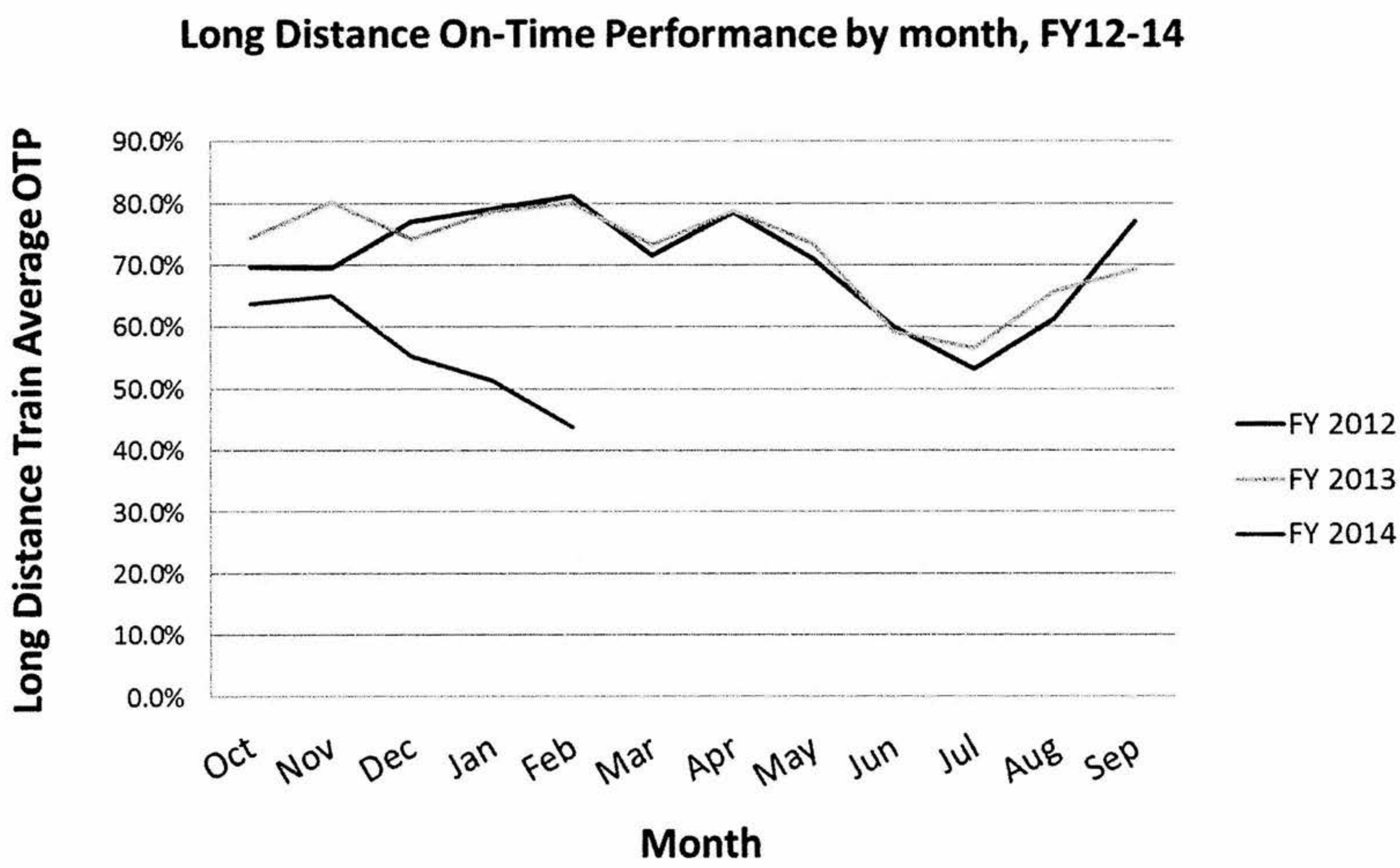
Delay to the *Empire Builder* by Type and Responsible Party

Most Recent Quarter - October through December 2013



AMTRAK®

Long Distance on-time performance, 2006-present



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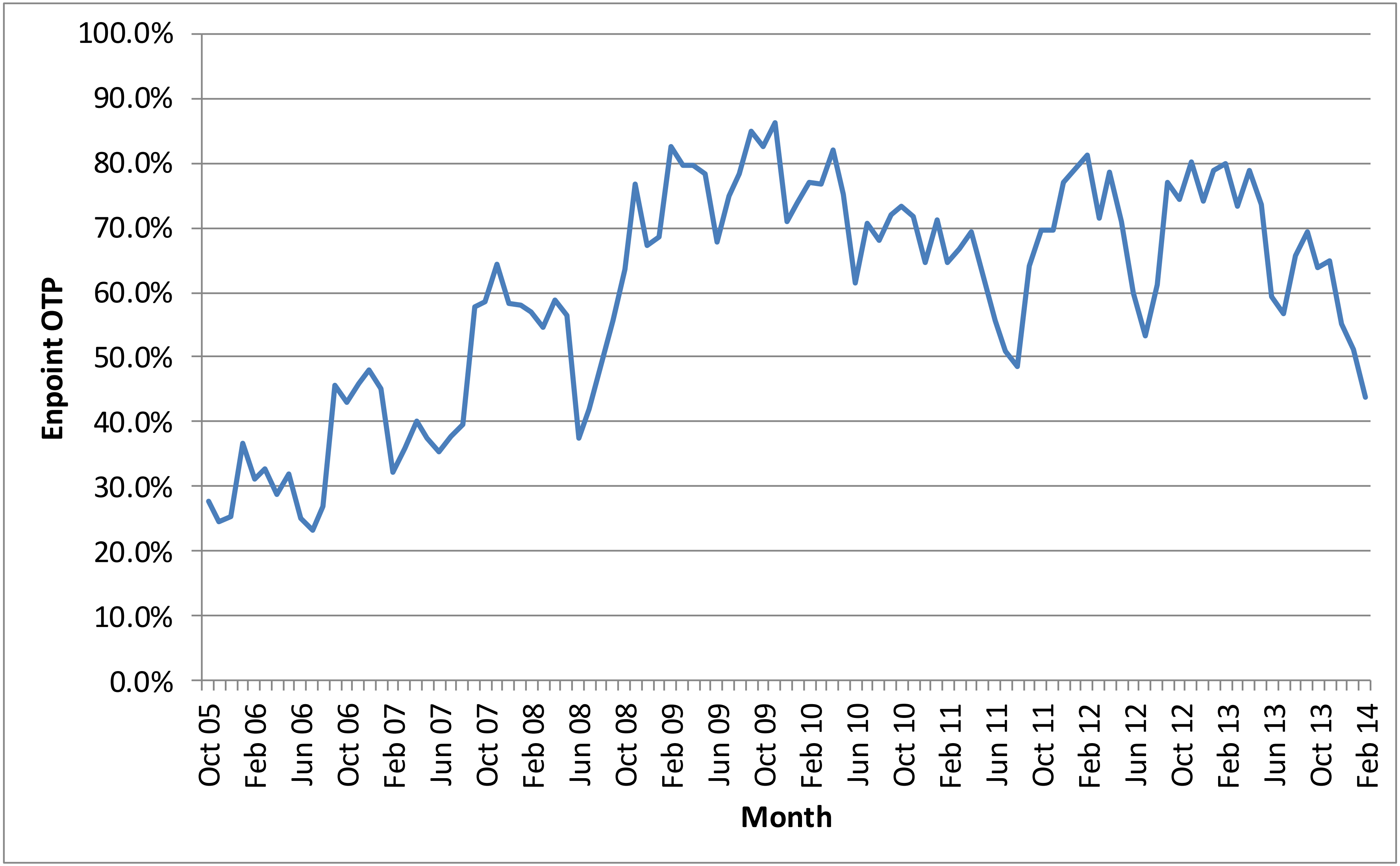
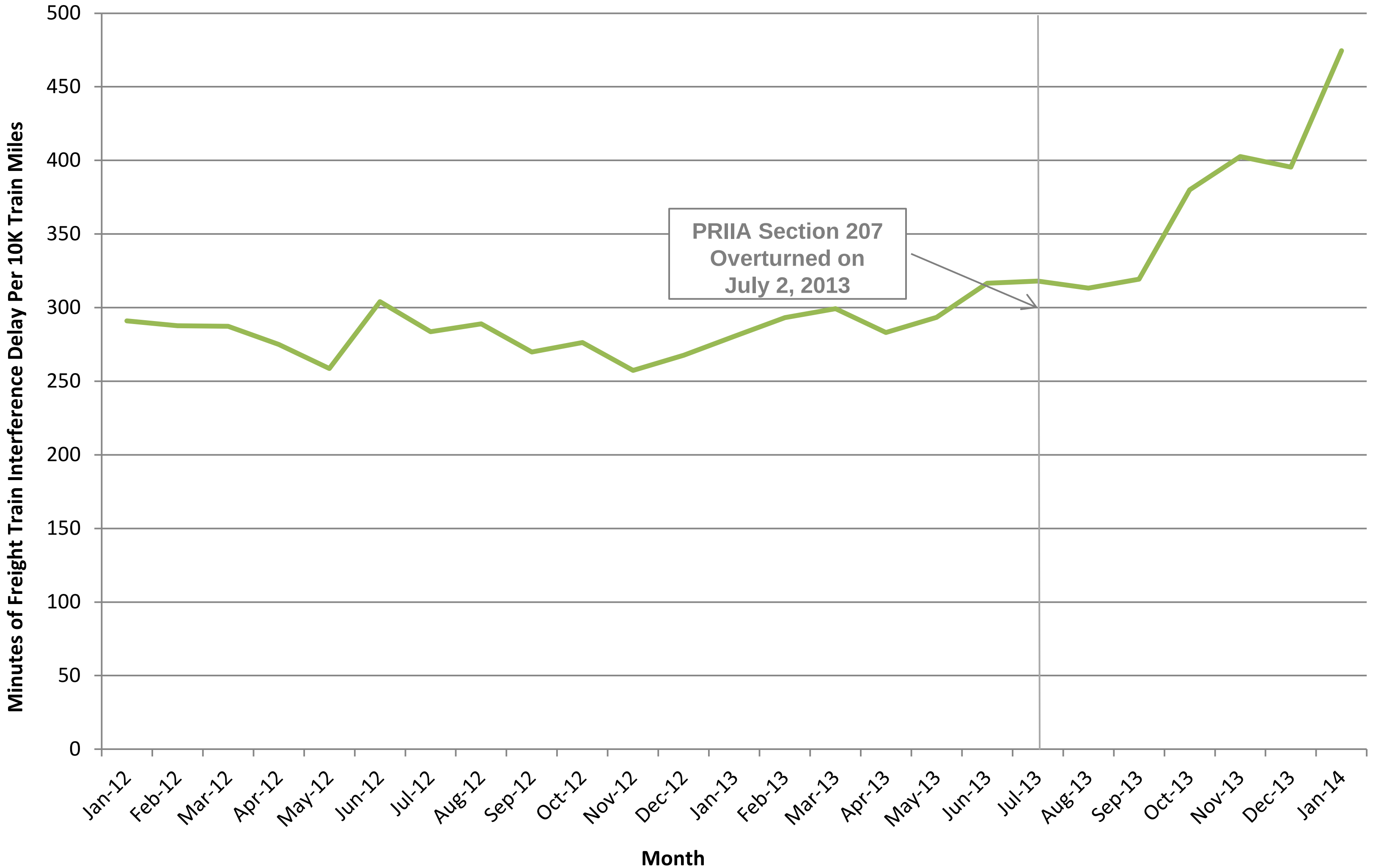
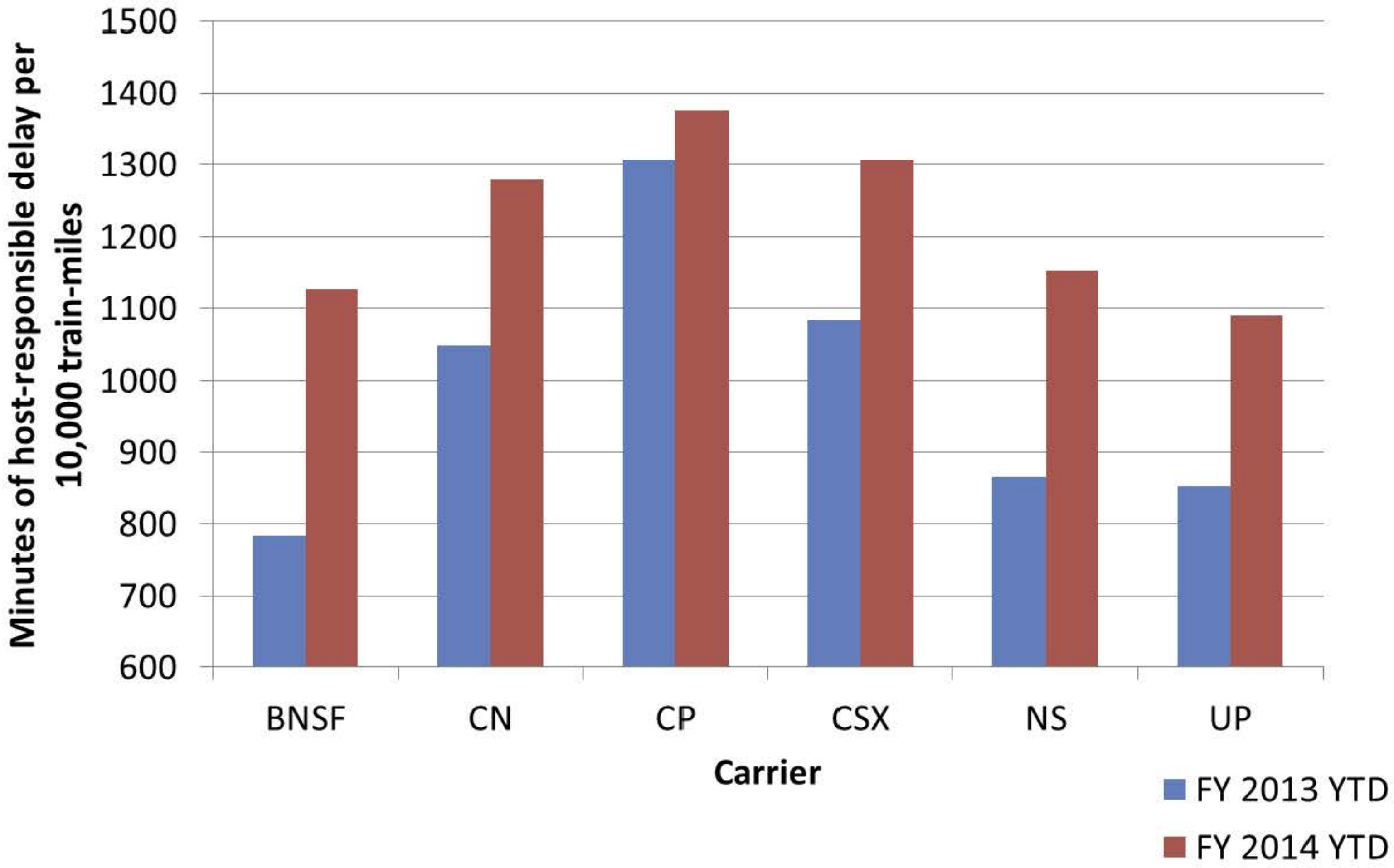


Freight Train Interference Delays on the Major Freight Host Railroads

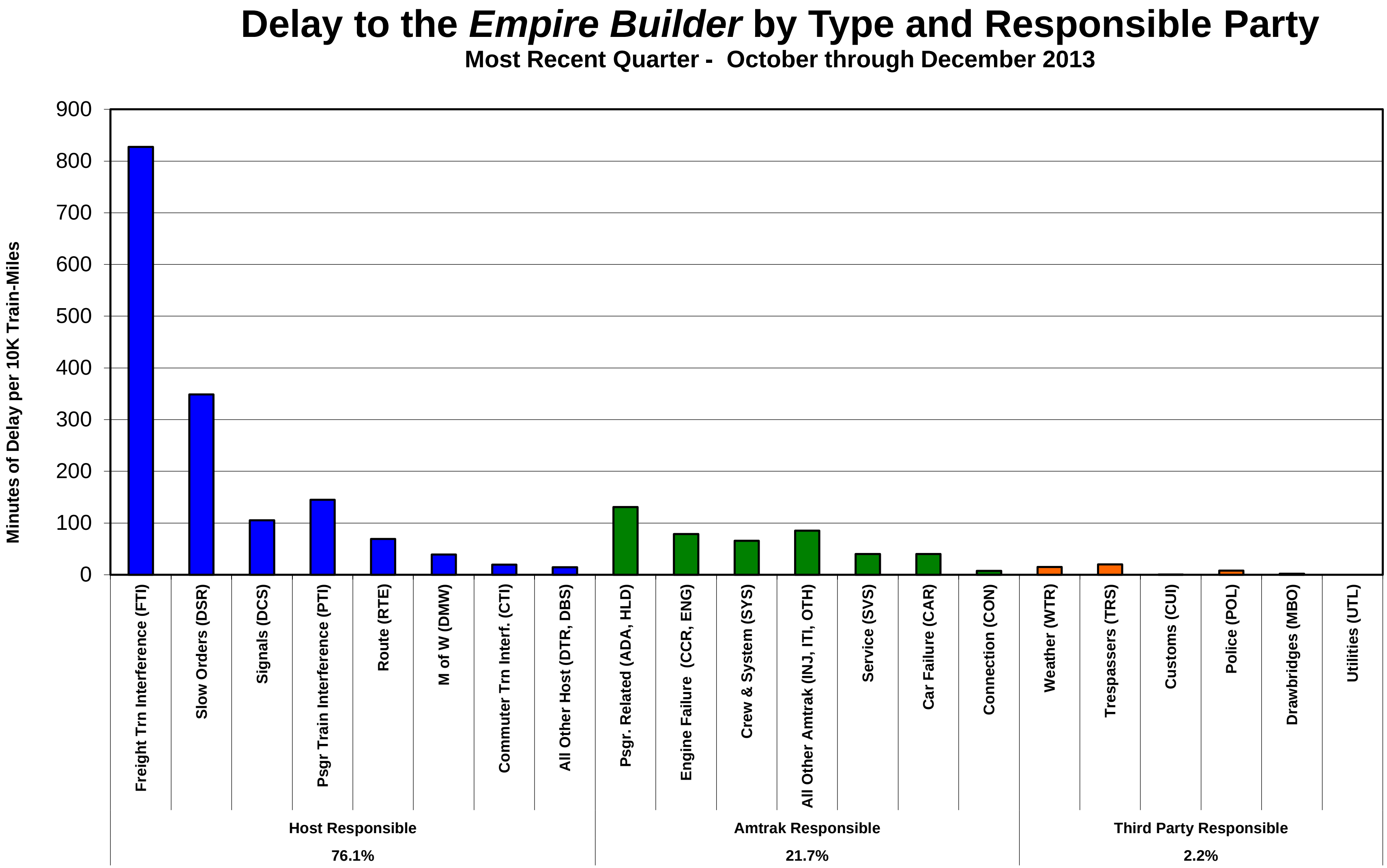


Major Freight Hosts are BNSF, CN, CP, CSX, NS, and UP.

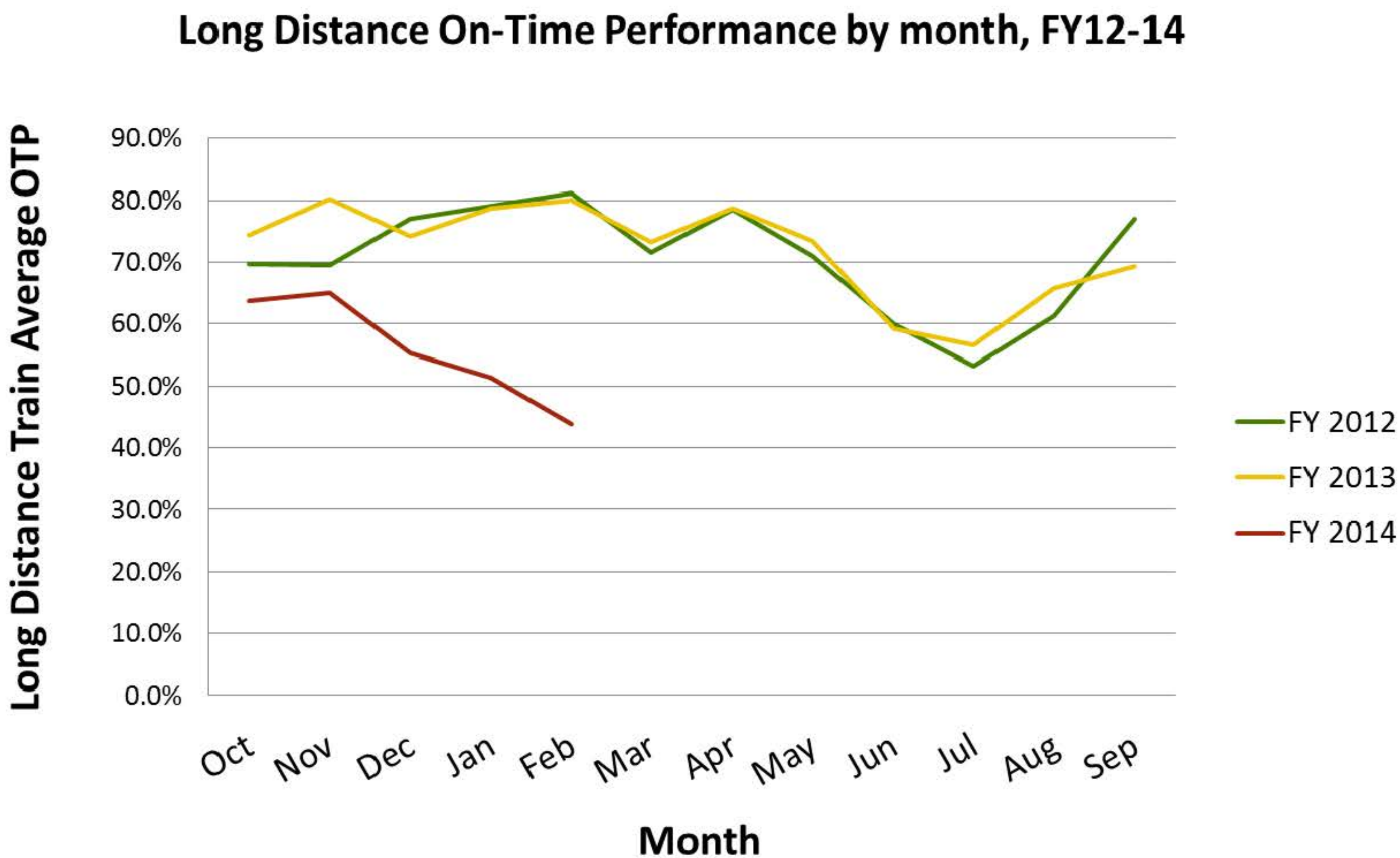
Minutes of Host-Responsible Delay per 10,000 train-miles



Freight train interference is the single largest cause of delay[566]



Long Distance on-time performance, 2006-present



Wheat GROWERS Connecting Solutions

235857

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Statement of Hal Clemensen
Farmer and President of the Board of Directors
of South Dakota Wheat Growers
at Surface Transportation Board Public Meeting
on United States Rail Service Issues
STB Docket No. EP 724, April 10, 2014

Good afternoon, Chairman Elliott and Vice Chairman Begeman. My name is Hal Clemensen. I am a third-generation family farmer from Conde, in northeast South Dakota, where we raise corn, soybeans and wheat on 3,200 acres. I am also the President of the South Dakota Wheat Growers Board of Directors. I am speaking today on behalf of myself and Wheat Growers, the largest local, farmer-owned grain and agronomy cooperatives in the nation, with more than 17,000 owners in North and South Dakota. Thank you for this opportunity to discuss the growing crisis agriculture is facing over the lack of timely rail service to ship our grain to domestic and foreign markets and bring in needed inputs for spring planting. Today I will share with you the impact this situation has had on me, my fellow farmers and our cooperative.

Wheat Growers annually handles over 160-million bushels of grain and 400,000 tons of fertilizer through our network of grain elevators and agronomy centers. But our system is now being strangled by a lack of dependable, timely rail service that is creating economic hardship and frustration on the grain side and uncertainty and anxiety on the agronomy side.

Continued poor performance by the Burlington Northern Santa Fe (BNSF) and Canadian Pacific (CP) railroads in meeting grain handling and agronomy input demands have a direct effect on the prices Wheat Growers member-owners and I receive for grain and the price we pay for fertilizer this spring.

Agriculture in the Dakotas and the upper Midwest is critically dependent on reliable rail service. Our distance to markets makes trucks not viable, and without navigable rivers in the Dakotas, barges are not an alternative. Grain must ship a great distance, and inputs such as fertilizer must come from equally great distances. Rail is the only viable mode of transportation for these bulk commodities.

908 Lamont Street South Aberdeen, SD 57401 Phone: 605-225-5500 Fax: 605-225-0859 www.wheatgrowers.com

North and South Dakota are served primarily by the BNSF and, the CP railroads. We have seen a deterioration of service with both carriers.

This past fall, we saw shuttle train cycle times dramatically slow down. Shuttles we load at harvest generally ship to the Pacific Northwest (PNW) export market via the BNSF. A typical cycle time for loading at origin in South Dakota, shipping to the PNW, unloading at a destination elevator, and then returning to South Dakota for the next loading generally takes about 12 to 13 days. Normally, a grain shuttle will load an average of 2.5 times per month and "cycle" back. However, this fall, the shuttles cycled in an average of 18 to 20 days or 1.5 trips per month. This increased cycle time, effectively reduced the amount of grain shipped by a given shuttle by 40 percent! In fact today, our cycle times still continue to deteriorate. Our current cycle times have pushed out to 24 days or only 1.3 trips per month here in early April.

The amount of time a shuttle sits at one of our facilities, waiting on the railroad after being loaded, (in 15 hours or less), accounted for most of the delay. Prior to this year, origin dwell times generally were less than one day. However, we have seen individual shuttles sit at origin for up to 10 days. Overall, dwell times have averaged over 5 days. I don't know how these averages compare to other industries.

Because of the railroads' slow performance, the grain handling industry, such as our cooperative, suffered economic losses. Wheat Growers purchased expensive shuttle trips in the secondary market to offset the slow cycle times of the primary shuttles we owned. Going into harvest, our elevators had purchased grain from farmers for harvest time delivery. Sales were made to grain buyers and shuttles positioned to ship that grain. Those shuttles did not cycle timely on the railroad lines and elevators like ours were forced to buy additional shuttle trips, increasing costs that could not be passed on to the market retroactively. The costs of purchasing additional shuttle trips since harvest have ranged from $1,000 per car to $6,000 per car and have averaged nearly $3,500 per car in the secondary market. This is an additional cost of approximately 88 cents per bushel that is paid above and beyond the tariff freight rate for the haulage.

The slow cycle times continue, and now farmers like me are seeing lower prices paid at elevators as the market adjusts the price due to higher shuttle costs. The basis price for corn in our North and South Dakota trade area is now approximately 50 cents per bushel less than the average of the prior two years. To put this into perspective, if this rail crisis reduces the prices we as farmers receive for our grain by 50 cents per bushel and with annual production

1.8 Billion bushels of corn, soybeans, and wheat in the Dakotas the cost to us as farmers is $900 Million annually. An even more dramatic impact to my farming operation would be if my fertilizer supply does not arrive in time to effectively fertilize my crops this spring.

The Canadian Pacific (CP) situation is also dramatically poor. In the North Dakota portion of our trade area, the CP has experienced similar slowness of cycle times. In South Dakota, (where the CP does not run shuttles) the CP railroad has recently sold the portion of the line that crosses the state to a short-line operator and expects to close on that transaction in the next couple of months. However, as of early April, we still have not received all of our January car orders, nor any of our February, March or April car orders. The CP is behind by 1,900 cars to Wheat Growers alone! Since the first of the year, we have received an average of only 38 cars per week from the CP against an average of 350 cars ordered per week and every week the backlog builds.

It is soon planting time in the Dakotas, and fertilizer needs to reach my farm and others this spring. I have pre-paid for my fertilizer needs for the year, but now I'm wondering if the railroad will be able to deliver. It's yet another economic crunch that is hitting us all. Fertilizer supply is also heavily dependent on rail; for example: North and South Dakota need the equivalent of 2.5 million tons of urea nitrogen fertilizer for spring planting this year. If this moves by rail, that's equivalent to 26,000 railcars. But if we had to rely on trucks to deliver that same amount, it would require over 100,000 truckloads of fertilizer shipped from great distances in a very tight delivery window. Without dependable rail service, crop production this spring will be in jeopardy.

The BNSF has been the premier U.S. rail operator over the past decade. We truly hope that the recent congestion and slowing rail service issues can be solved quickly, and they can meet or exceed prior performance standards. Wheat Growers applauds the BNSF's recent willingness to meet with the industry, communicate with their customers and make their operating metrics more transparent. We also appreciate their announced capital improvements – although we believe much more is needed in the northern corridor.

Wheat Growers implores the Surface Transportation Board to protect agriculture's access to, and utilization of, the constrained rail capacity that this crisis brings. We do not want to see agricultural traffic de-prioritized or, worse yet, de-marketed. Agriculture has been a significant driver of this country's economic recovery, and any loss of service will set back the economic momentum that this key sector of our economy delivers.

We would also ask the board to stay vigilant in monitoring the Canadian Pacific, as the line in South Dakota is transitioned to a new owner. Until the ownership changes and the operating system rolls over to the new owner, the CP still has an obligation to service the line and should not be able to simply walk away from the backlog of cars they have generated this winter. We do not want to see the CP prematurely transferring assets such as cars and locomotives from South Dakota to other regions they intend to serve in the future.

On behalf of myself and our cooperative, I urge you to continue to make sure agriculture's needs are heard and addressed. Dependable, timely railroad service is critical to our economic survival so we can continue the cycle of producing, harvesting and transporting grain from the upper Midwest to help feed a hungry world.

Thank you for this opportunity to express my views and concerns. I am prepared to respond to any questions the Board may have.

Operations Update

Rush Bailey

Assistant Vice President Service Management

235858

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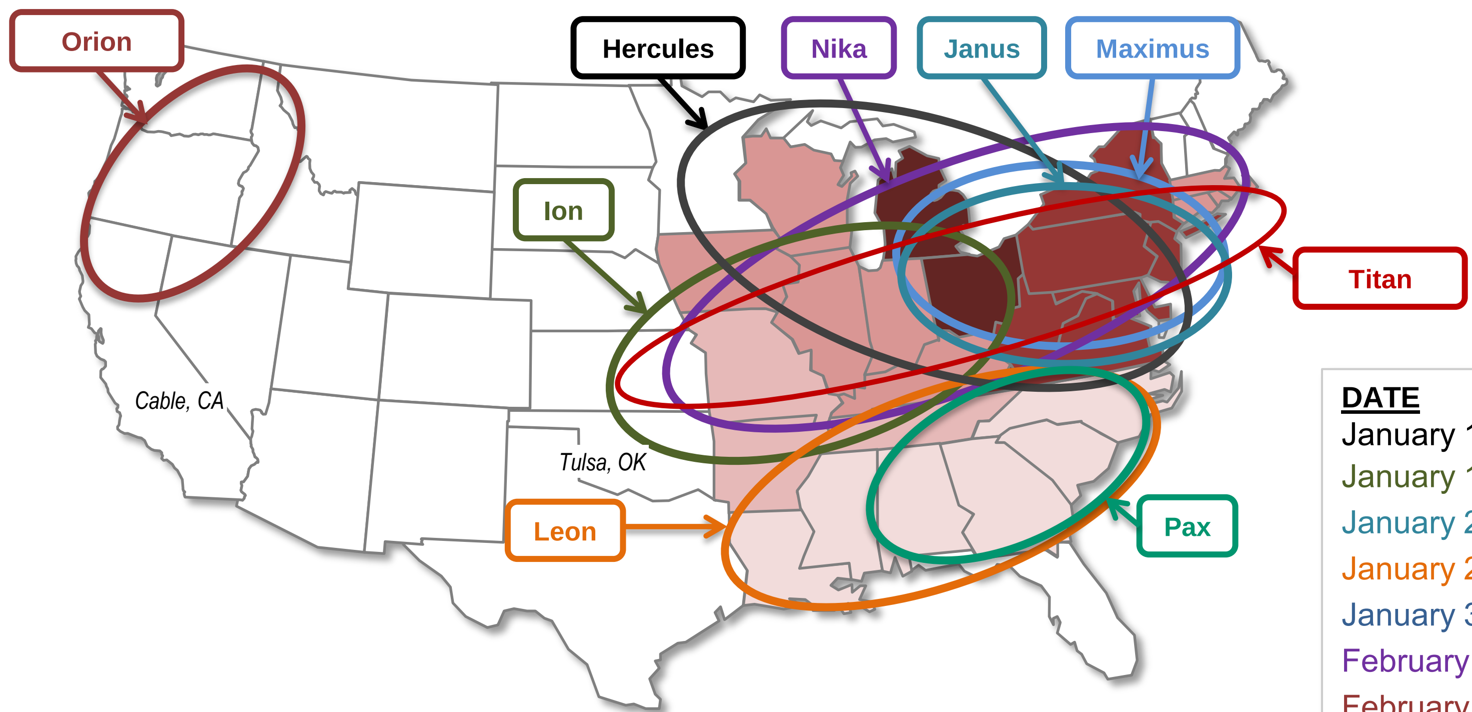
STB

April 10, 2014

2014 Winter Storm Impact Areas



DATE	WINTER STORM
January 13	Hercules
January 15	Ion
January 21	Janus
January 28	Leon
January 30	Maximus
February 4	Nika
February 4	Orion
February 10	Pax
March 3	Titan

Operational Impact of Extreme Cold

Crew Availability & Employee Exposure – Taxi and transportation due to road conditions, highway access, and local emergency declarations in some areas, reduced productivity due to impact on employees working outside for extended periods.

Locomotive & Equipment Failures – Increase locomotive bad orders, problems with switch heaters, signals and electronic equipment, fuel trucks, intermodal cranes, automotive buck ramps.

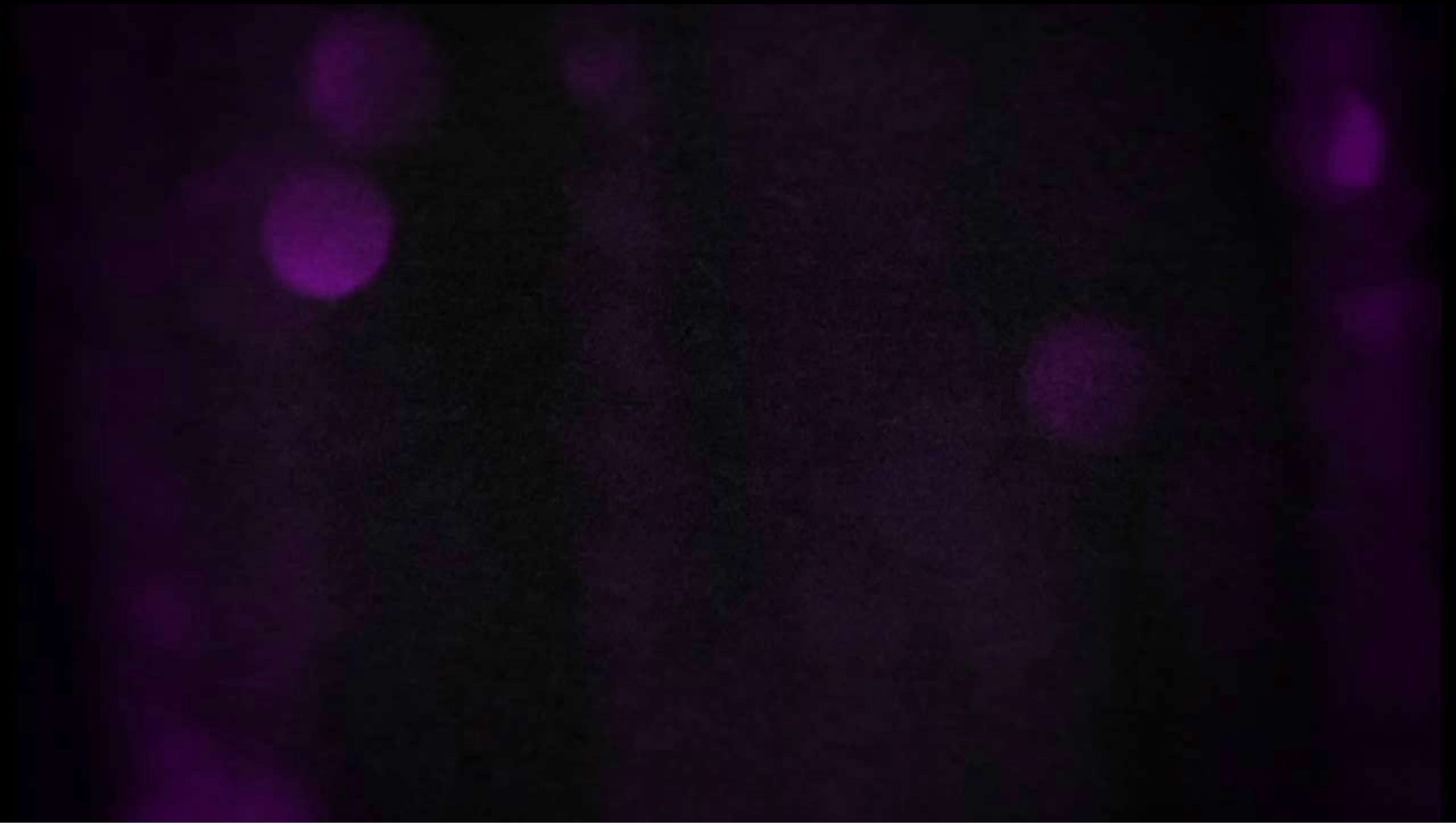
Train Operations - Train length restrictions due to air brake systems, access to crew change locations, limited siding capacity due to train tie downs**,** limited use of crossovers due to frozen switches, congestion at interchanges and terminals due to limited operations.

Yard Operations – Wind resistance against cars moving over the hump in classification yards; frozen switches; cold air impact on airlines to the hump and retarders.

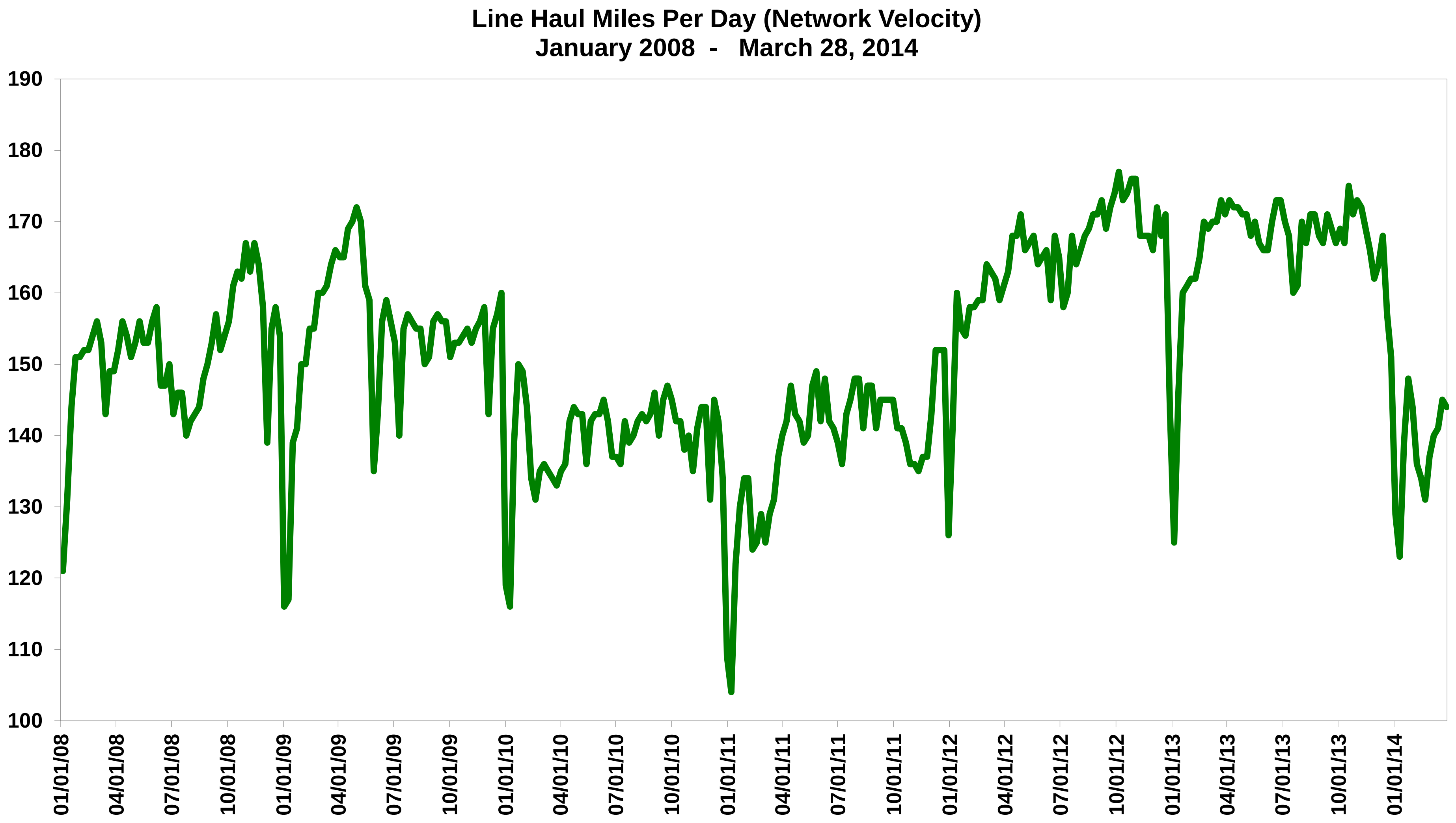
Local Operations (pickup/delivery) – Snow and/or frozen switches require clearing and/or melting to service industries and in sub-zero temperatures can refreeze in a matter of minutes.

Track Conditions – Increased incidents of broken rail.

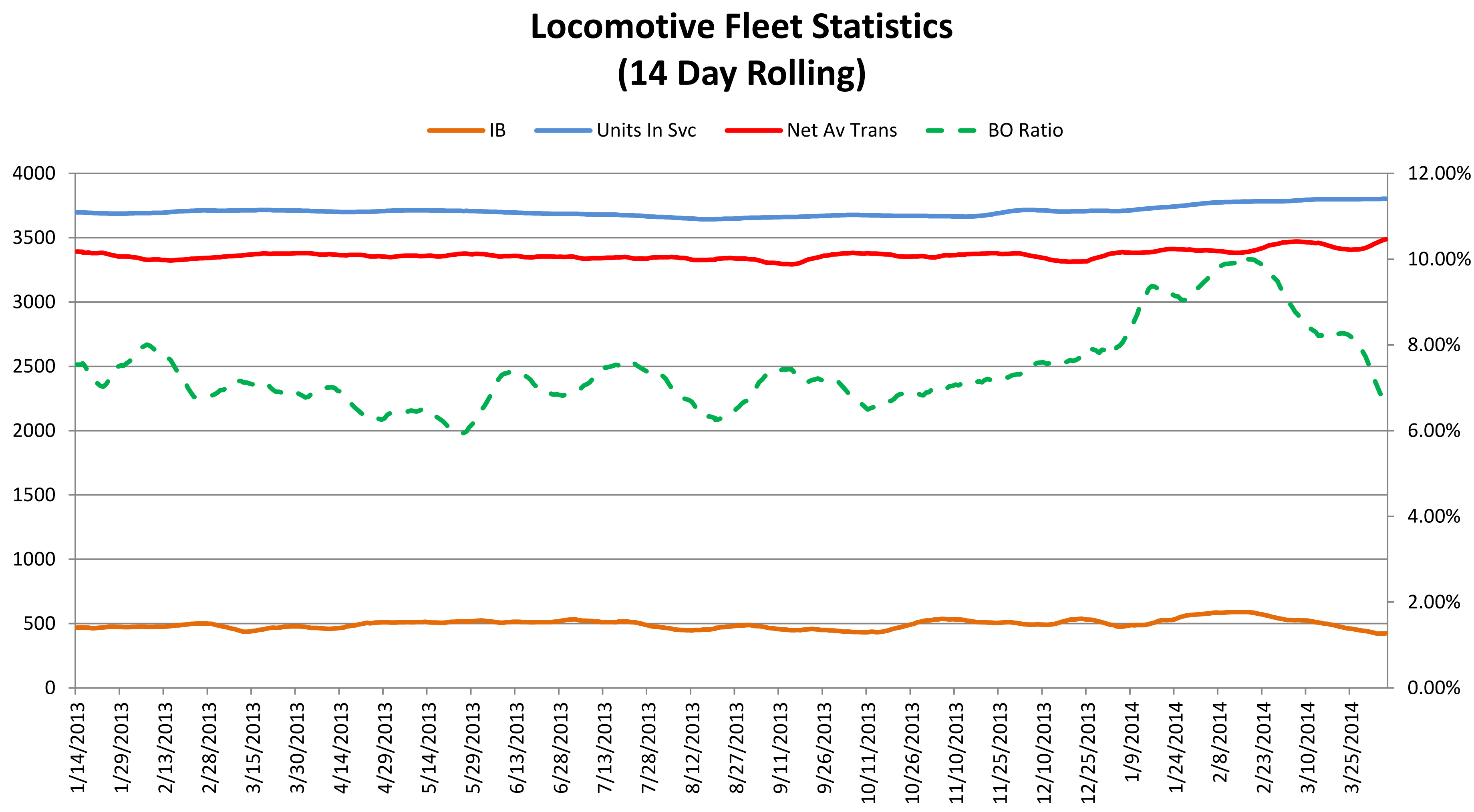
Signals – Power outages can impact signal operations and crossings.



Line Haul Miles Per Day (Network Velocity)

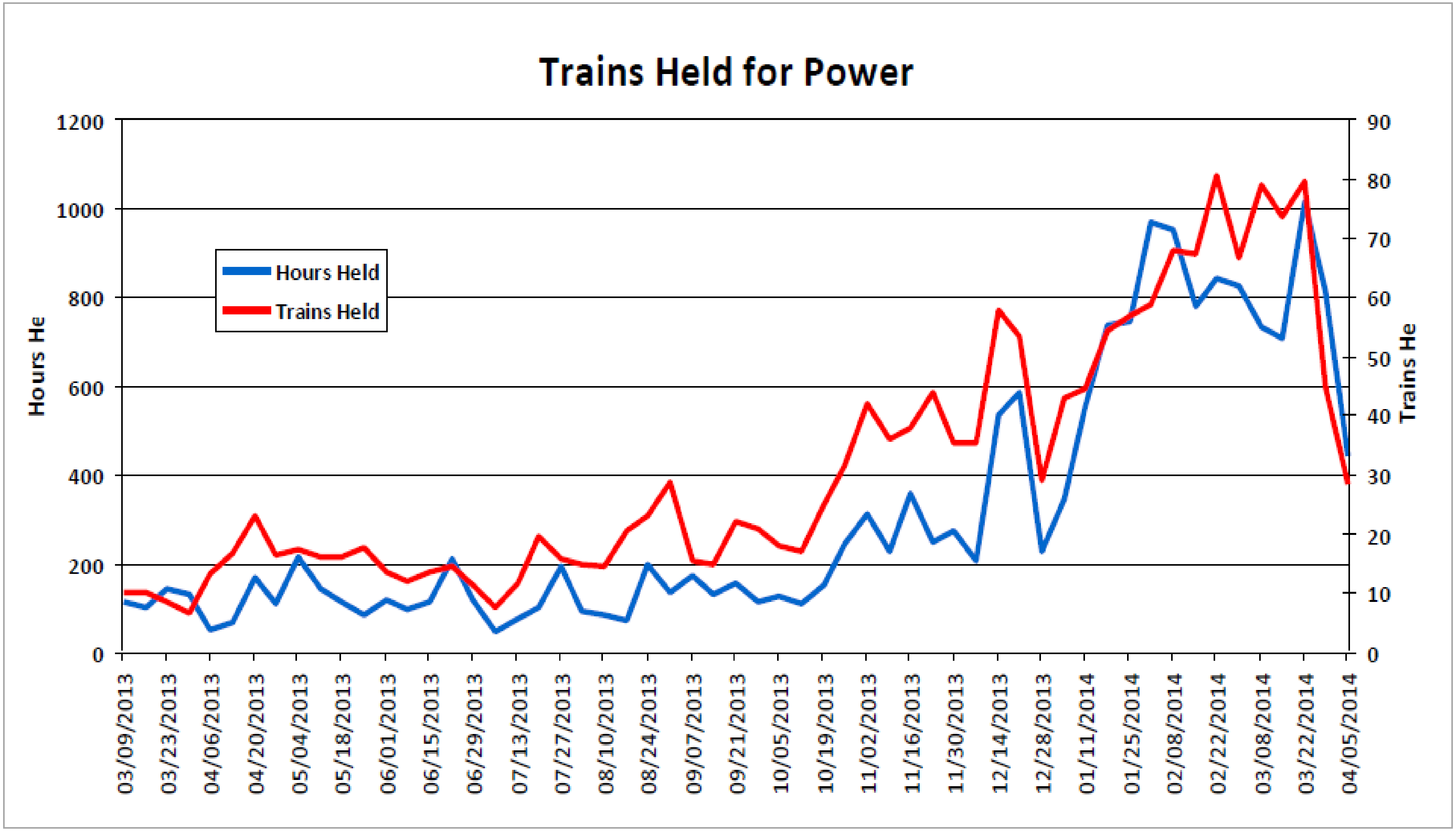


Locomotive Fleet Summary Data



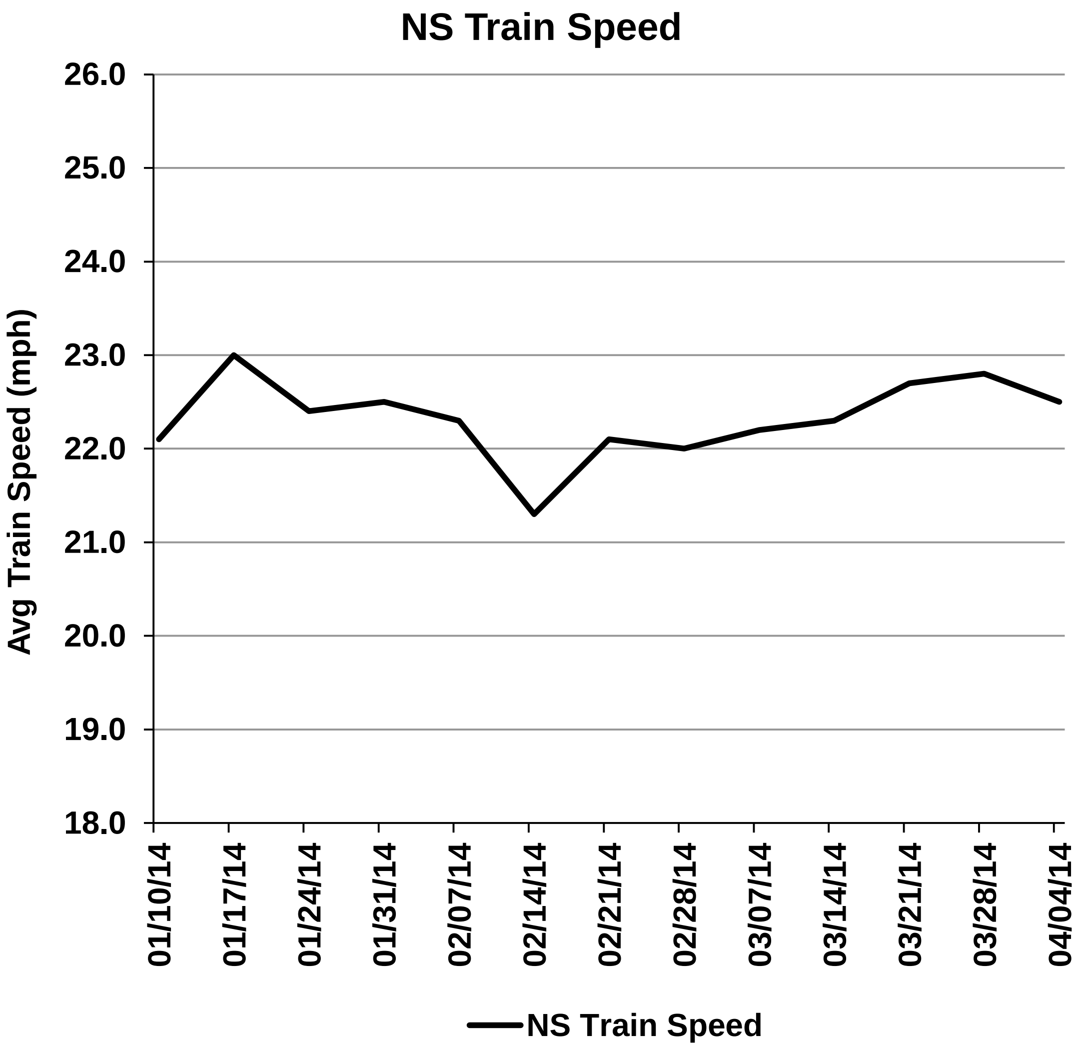
Improving Trends

Trains and Hours Held for Power



Improving Trends
Train Speed (miles per hour)

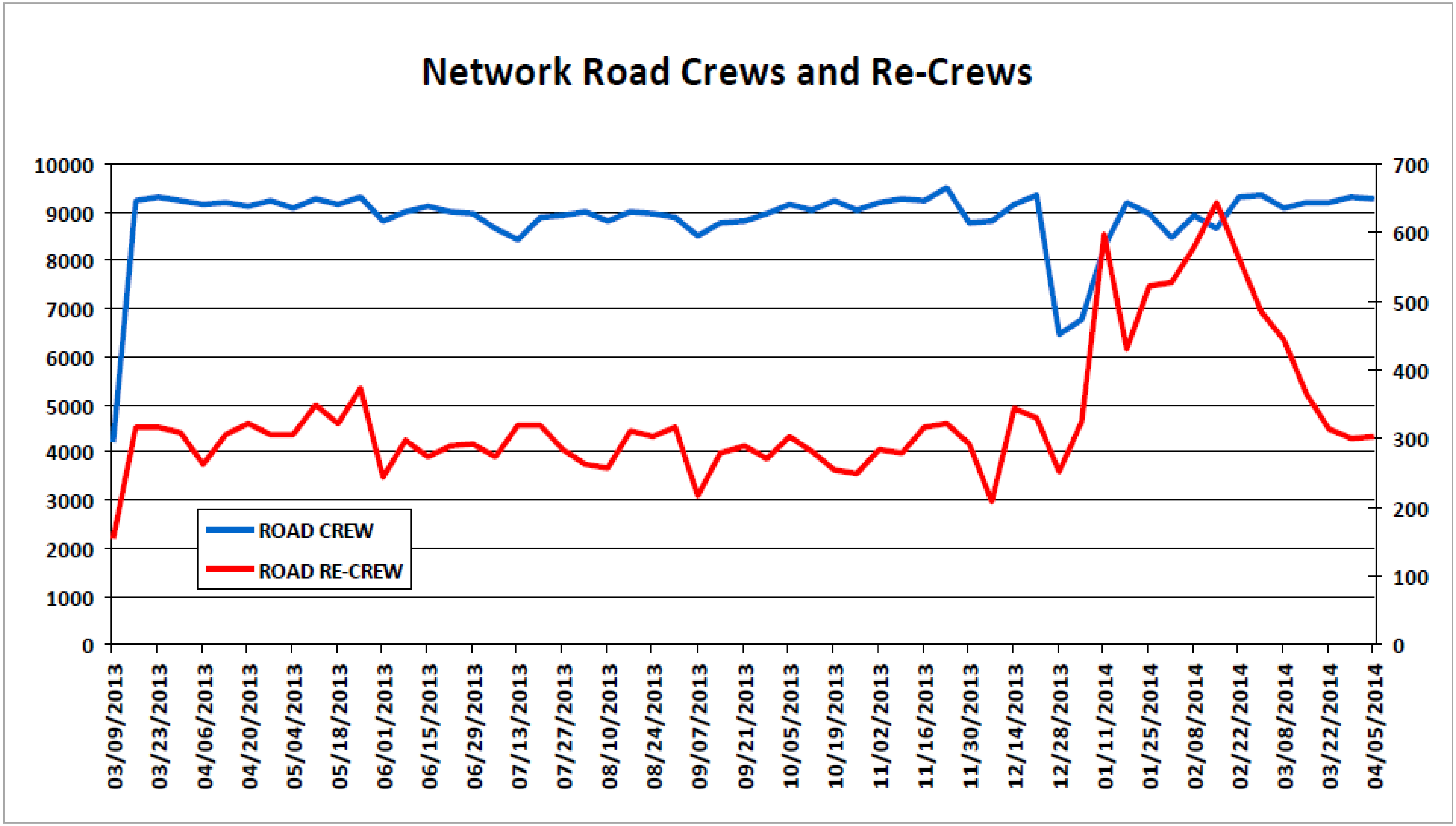
Quarter of Year	Average NS Train Speed
2009 – Year	**23.14**
2010 – Year	**21.54**
2011 – Year	**21.23**
2012 – 1st Qtr	**23.36**
2012 – 2nd Qtr	**23.67**
2012 – 3rd Qtr	**24.12**
2012 – 4th Qtr	**24.59**
2013 – 1st Qtr	**24.17**
2013 – 2nd Qtr	**23.80**
2013 – 3rd Qtr	**23.90**
2013 – 4th Qtr	**23.80**
2014– 1st Qtr	**22.38**



Quarterly performance comparison based on weekly averages reported to AAR.

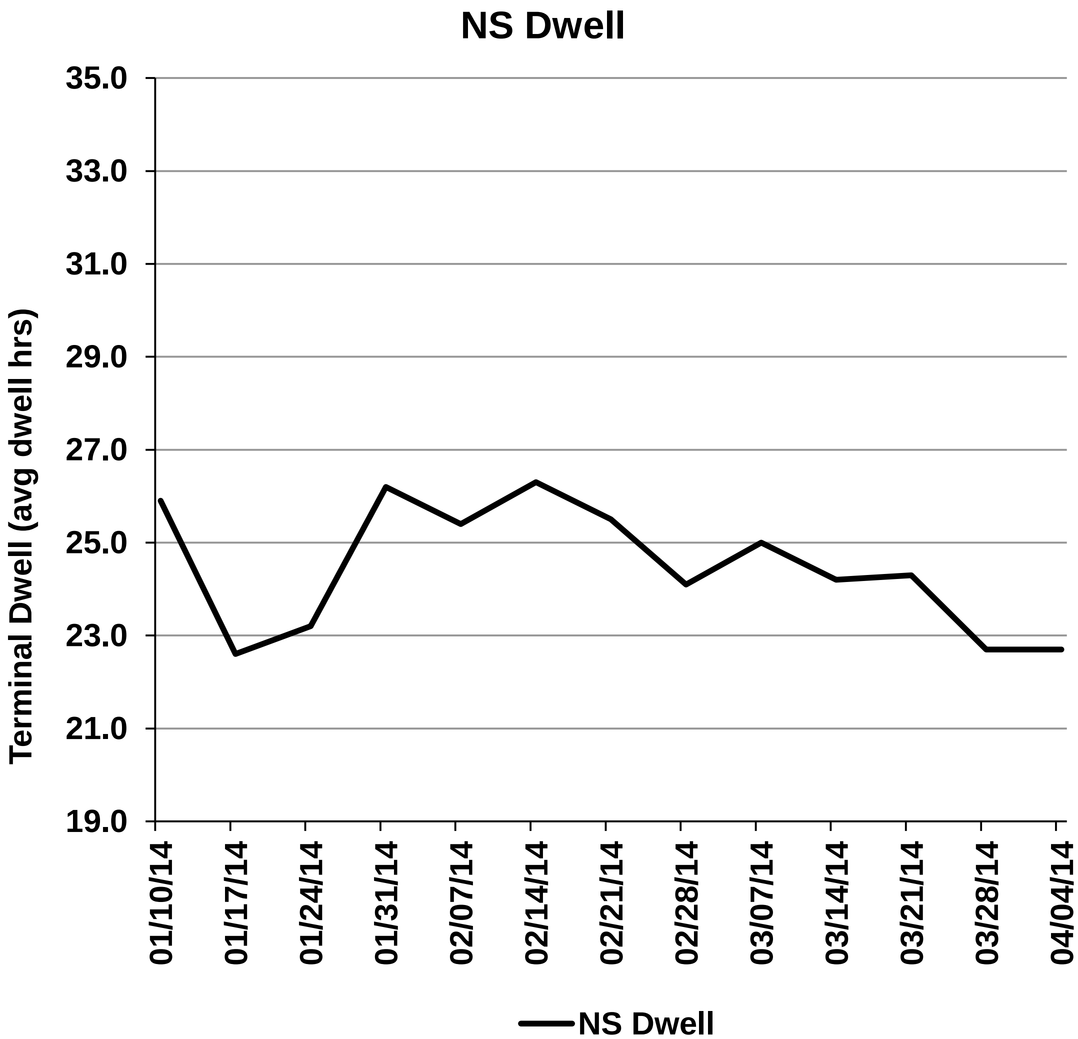
Improving Trends

Road Crew Tie-Ups and Re-Crews



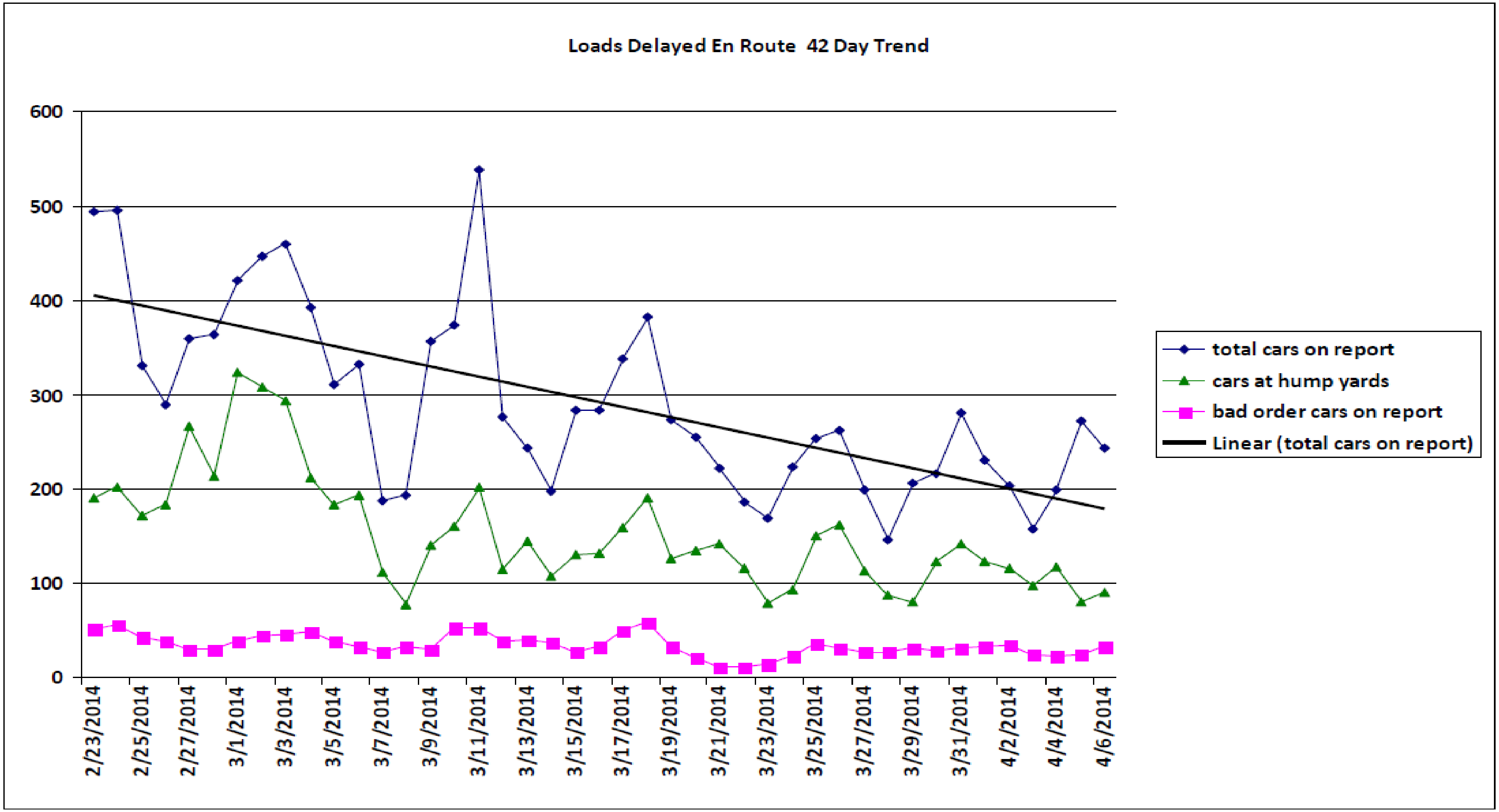
Terminal Dwell (hours)

Quarter of Year	Average NS Dwell
2009 – Year	**22.56**
2010 – Year	**24.46**
2011 – Year	**24.54**
2012 – 1st Qtr	**21.77**
2012 – 2nd Qtr	**21.64**
2012 – 3rd Qtr	**21.34**
2012 – 4th Qtr	**21.91**
2013 – 1st Qtr	**22.00**
2013 – 2nd Qtr	**21.20**
2013 – 3rd Qtr	**21.20**
2013 – 4th Qtr	**21.87**
2014 – 1st Qtr	**25.05**



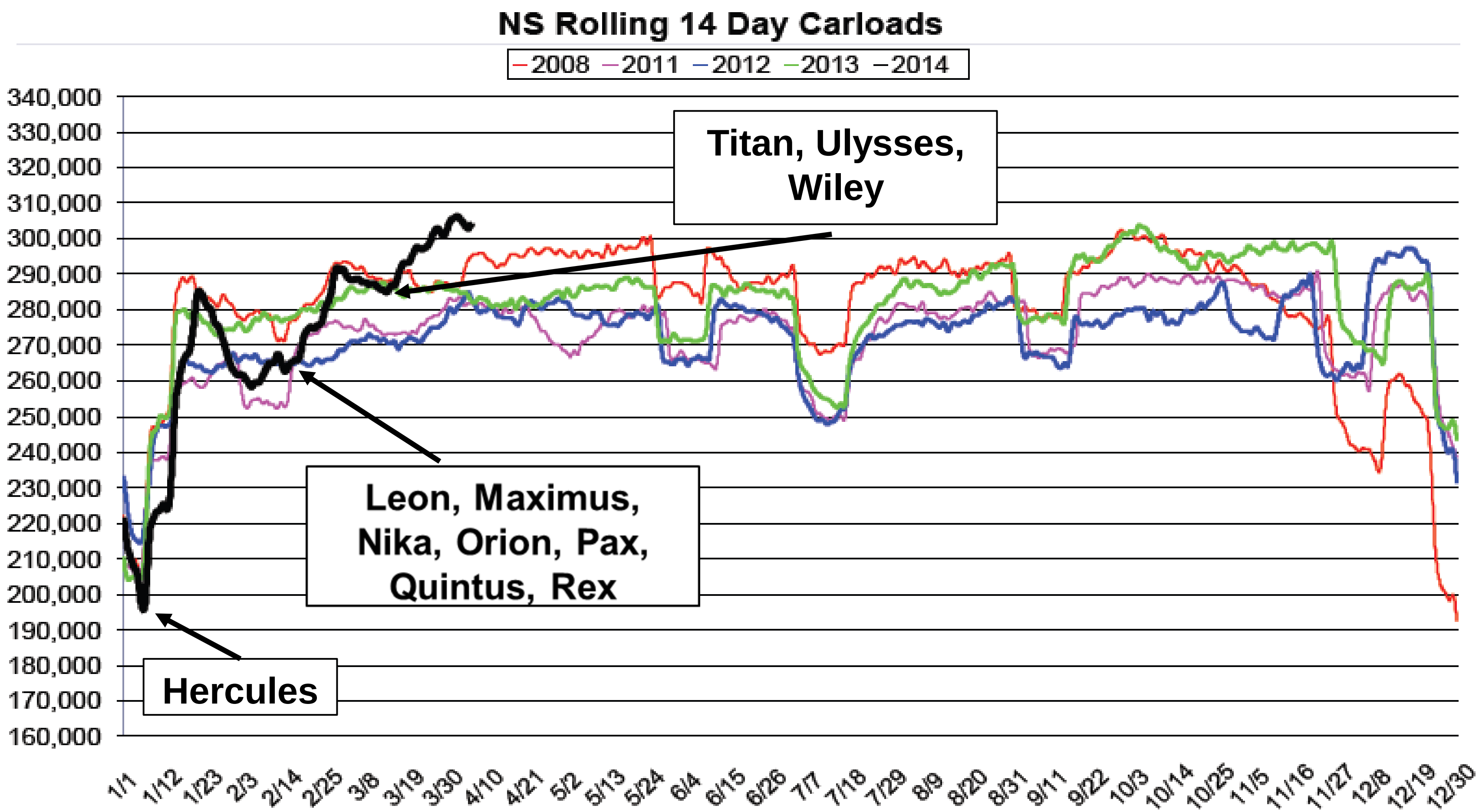
Improving Trends
Loads Delayed

Loads Delayed En Route



Improving Trends

14 Day Running Carloads



STB Hearing: Ex Parte 724

April 10, 2014

235859

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Testimony of BNSF Railway

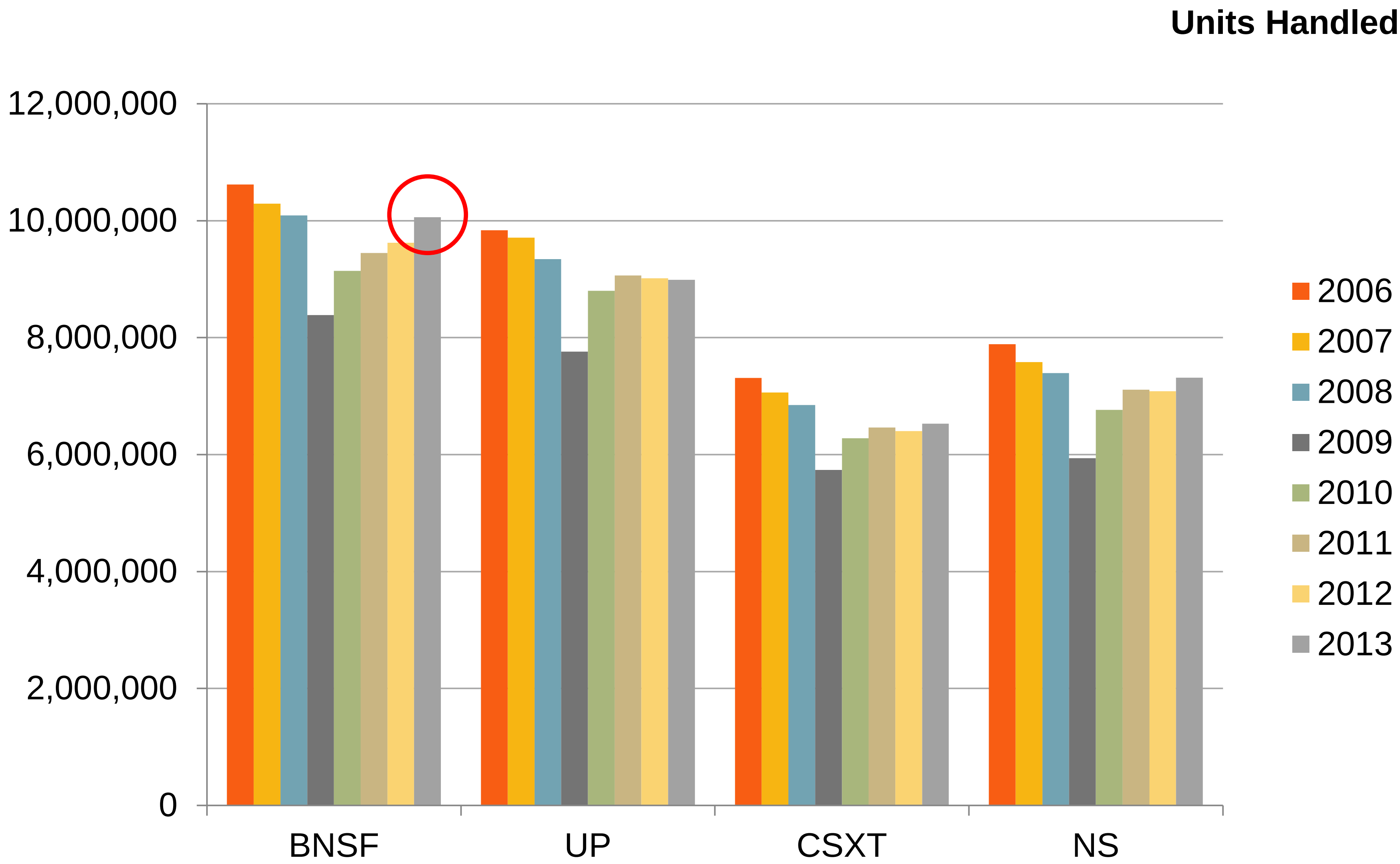
Steve Bobb, Executive Vice President, Chief Marketing Officer

Bob Lease, Vice President, Service Design and Performance

Overview

- **Introduction**
- **Drivers of Congestion**
- **Recovery Efforts**
- **Service Expectation Going Forward**
- **Customer Outreach**
- **Conclusion**

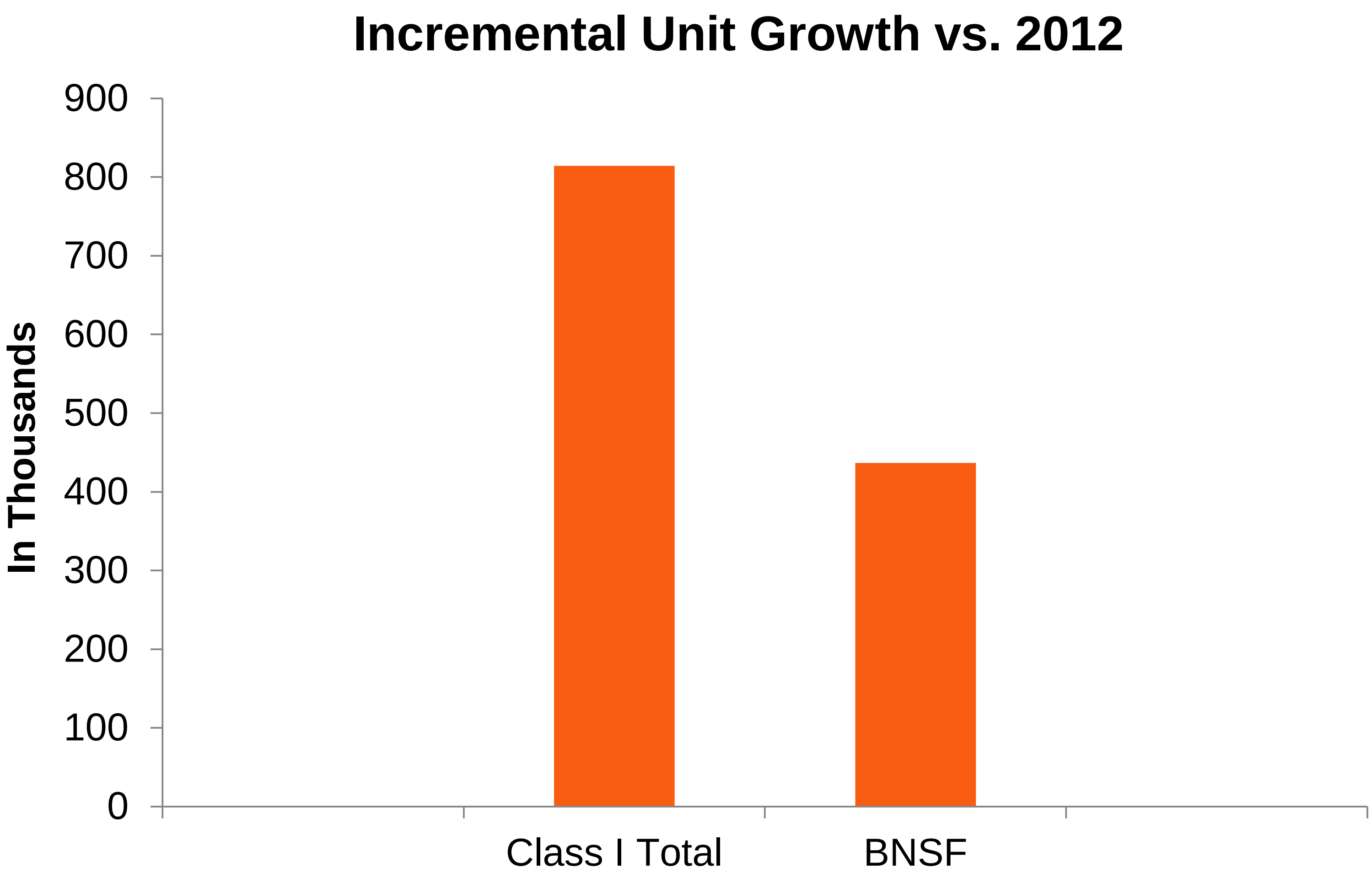
As Economy Improves - Rail Traffic is Rebounding



BNSF RAILWAY

Source: CS54 Weekly Traffic Reports; data through Week 52, 2013

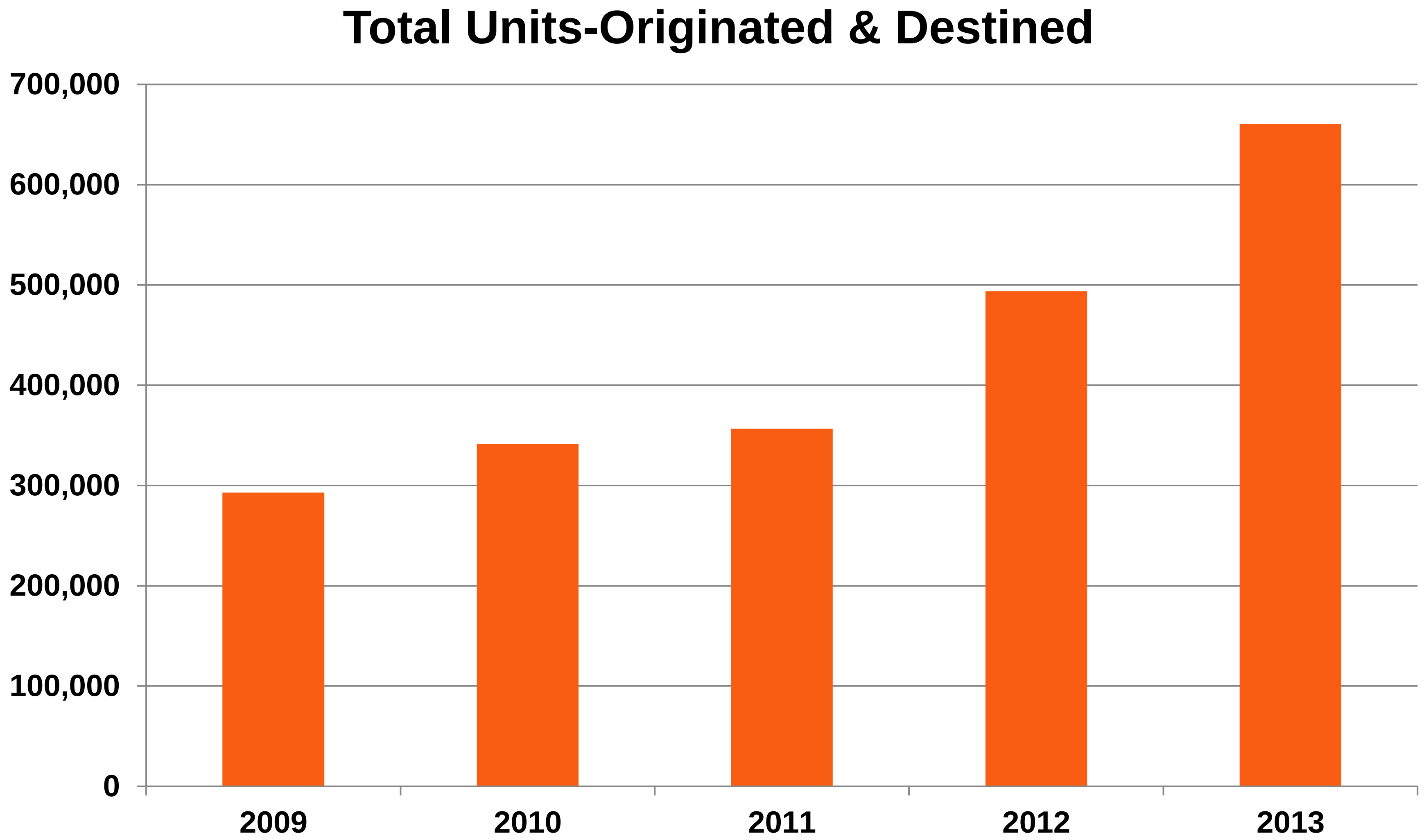
BNSF Moved Over 50% of 2013 Growth on U.S. Rail



Source: AAR; CS54 data through Week 52 (12/28/2013) (Units Handled)

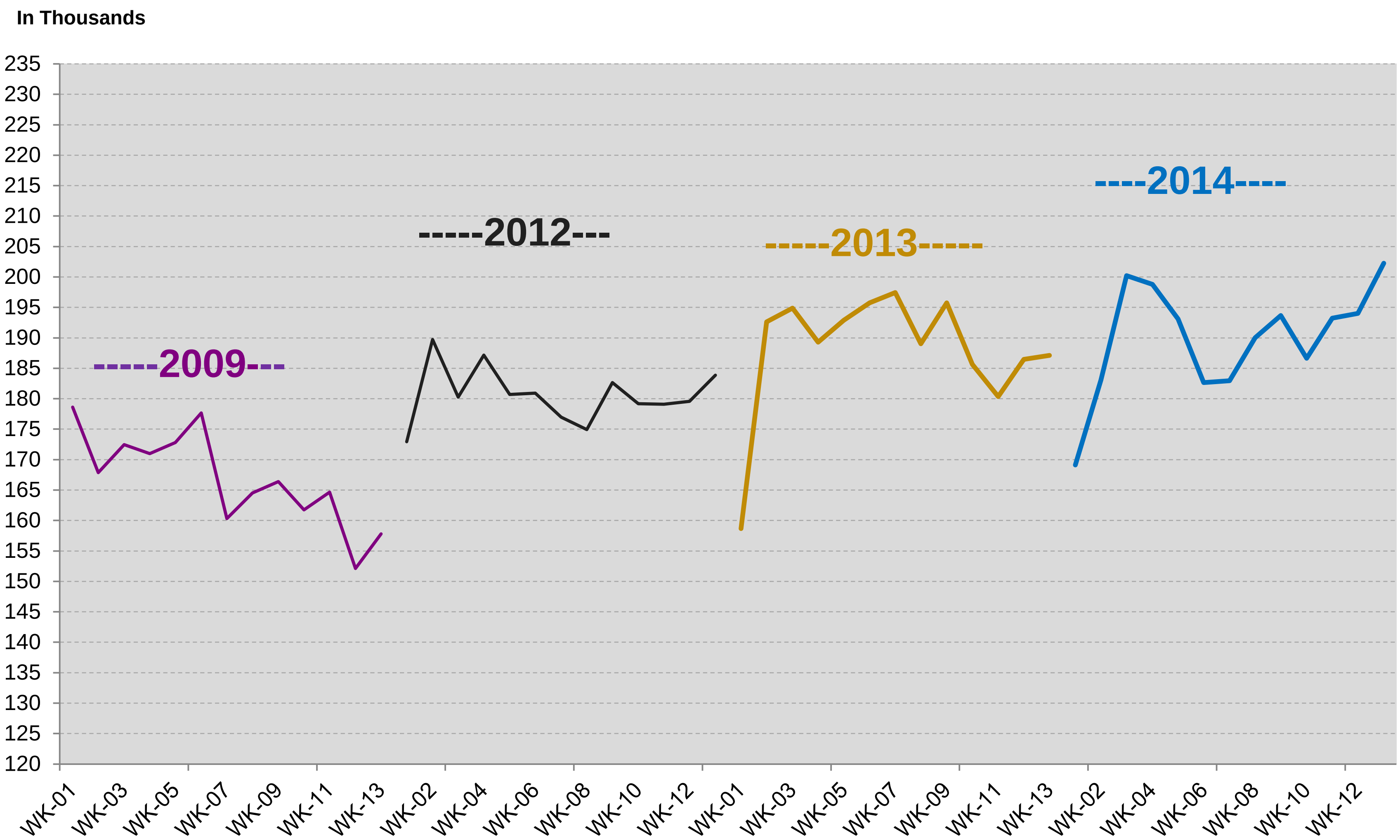
North Dakota Almost Half of That Growth

125% Increase Since 2009



Volume Continues to Grow Today

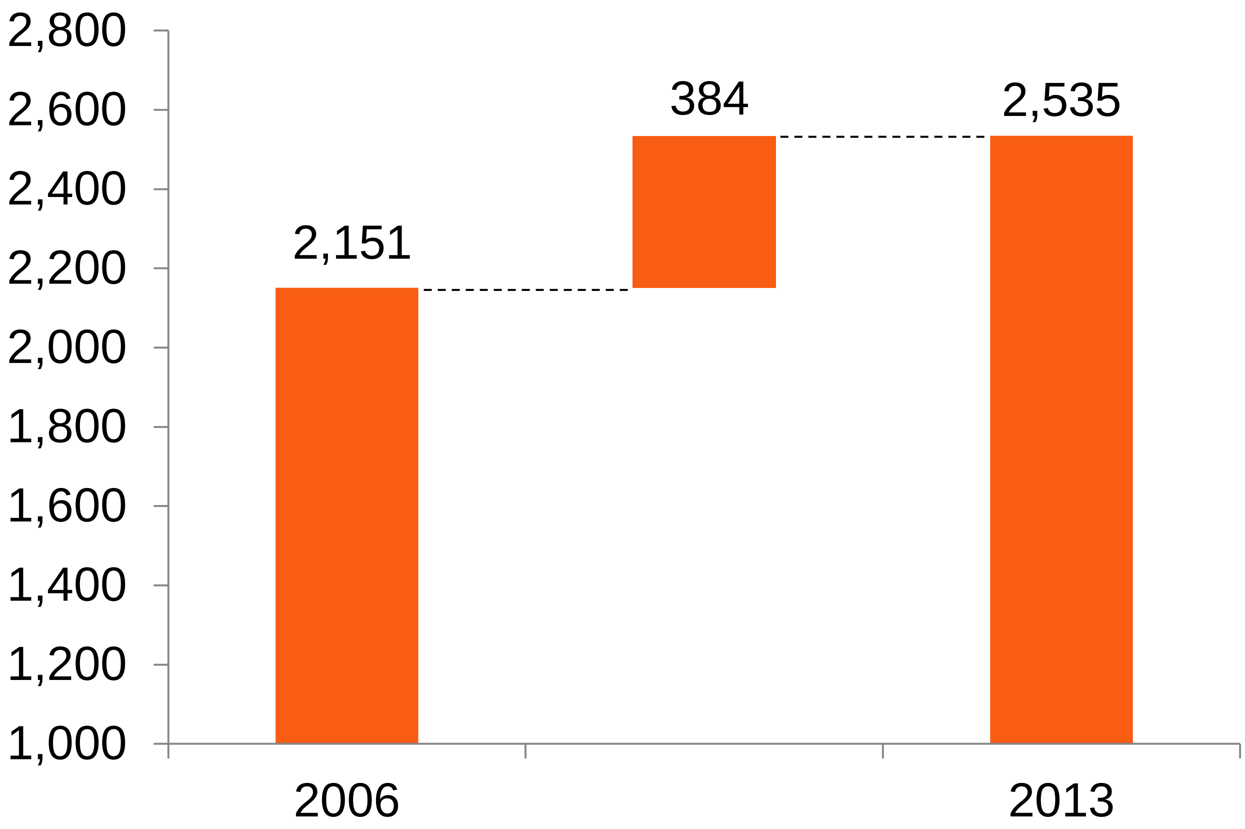
BNSF Weekly Volume: AAR Weeks 1-13



Domestic Intermodal Volumes

Since 2006, Domestic Intermodal has been BNSF's largest unit growth

Units (000's)

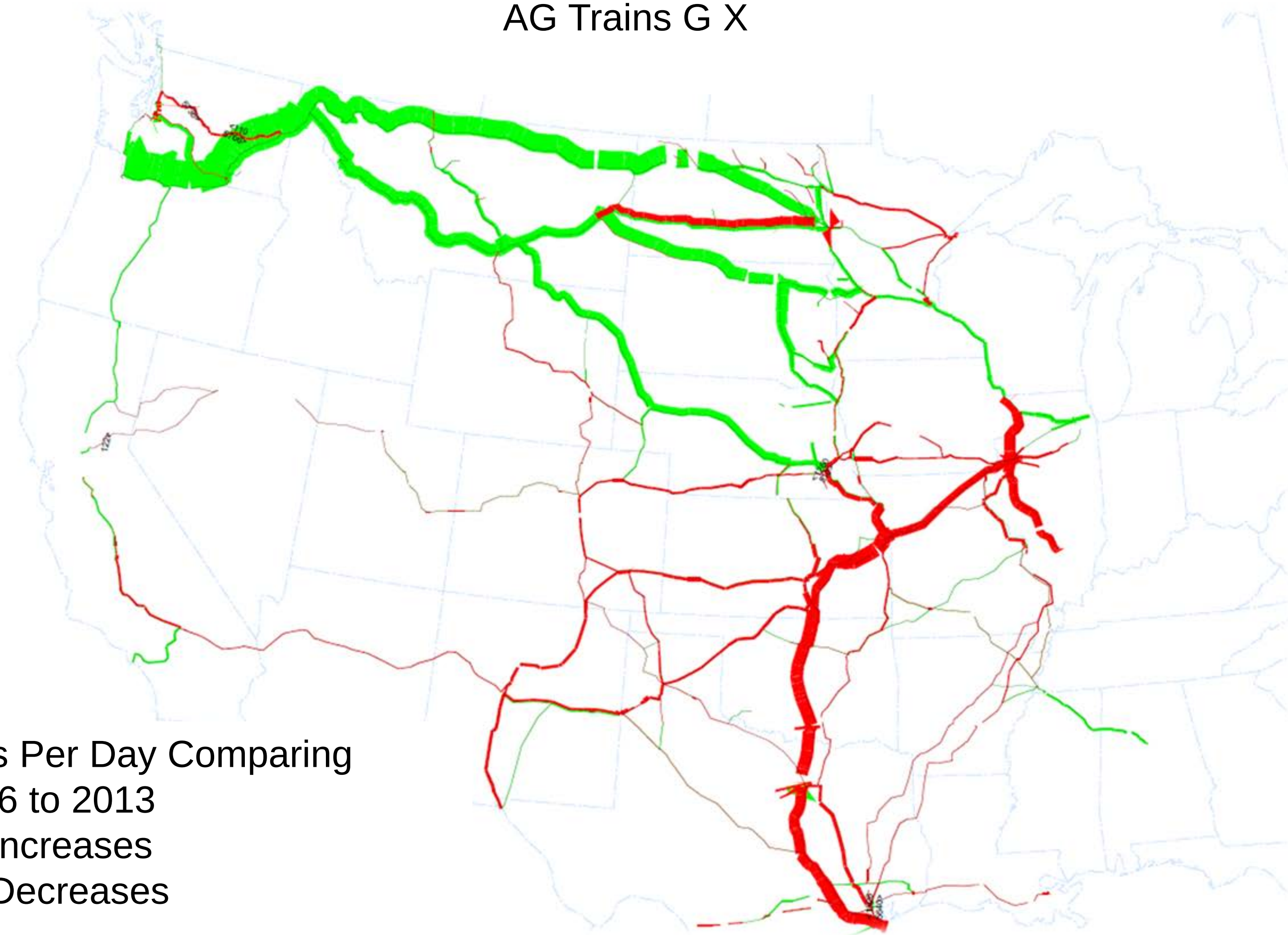


Note: Petroleum grew 324k units during same time period.

BNSF Ag Volumes- 4Q 2006 and 4Q 2013

Compressed Harvest made Additional Demands on Network

AG Trains G X



Gross Tons Per Day Comparing
4th Qtr 2006 to 2013

Increases

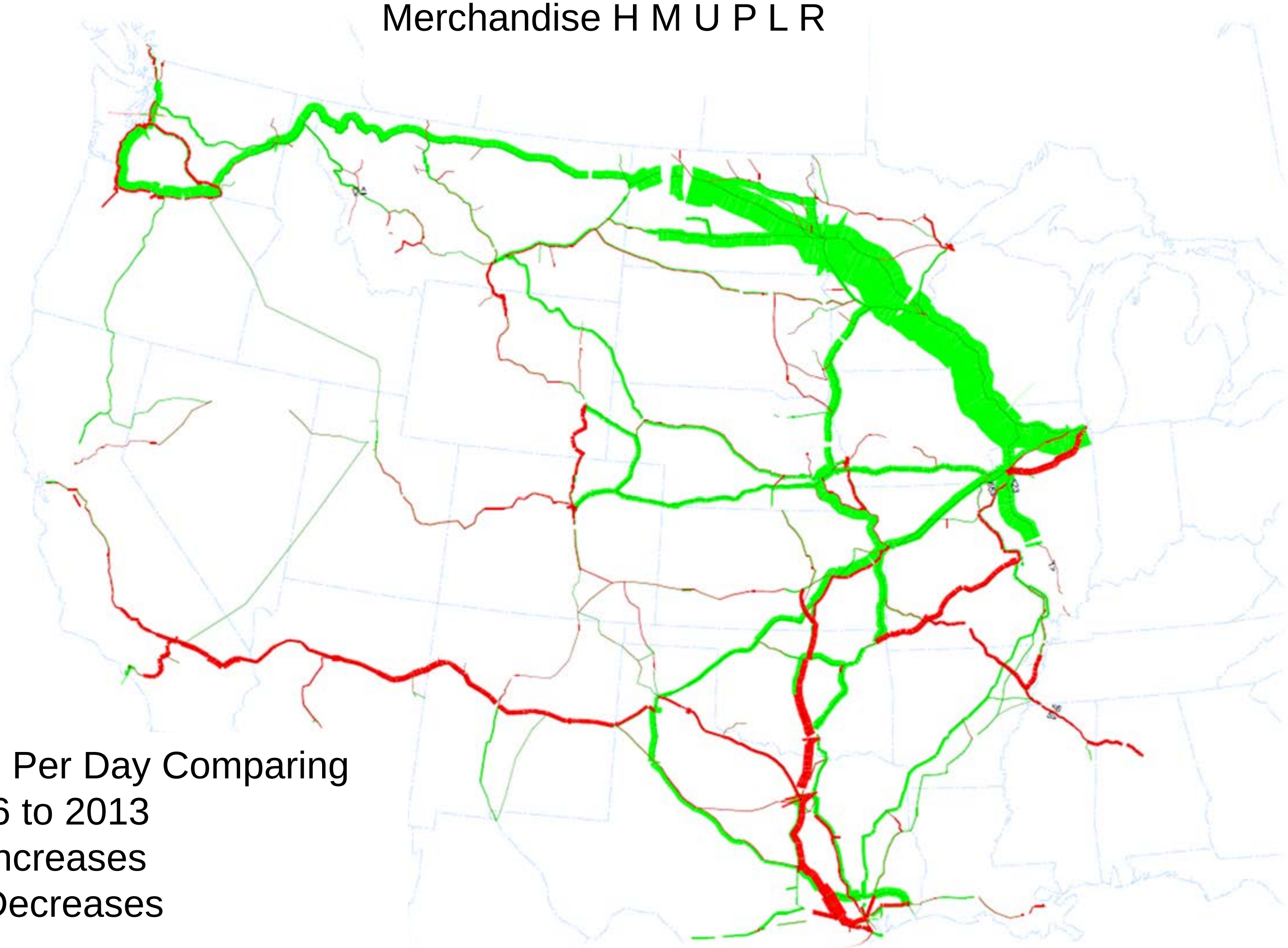
Decreases

BNSF RAILWAY

BNSF IP Volumes- 4Q 2006 and 4Q 2013

Industrial Product Volumes also Increased, then Surged

Merchandise H M U P L R

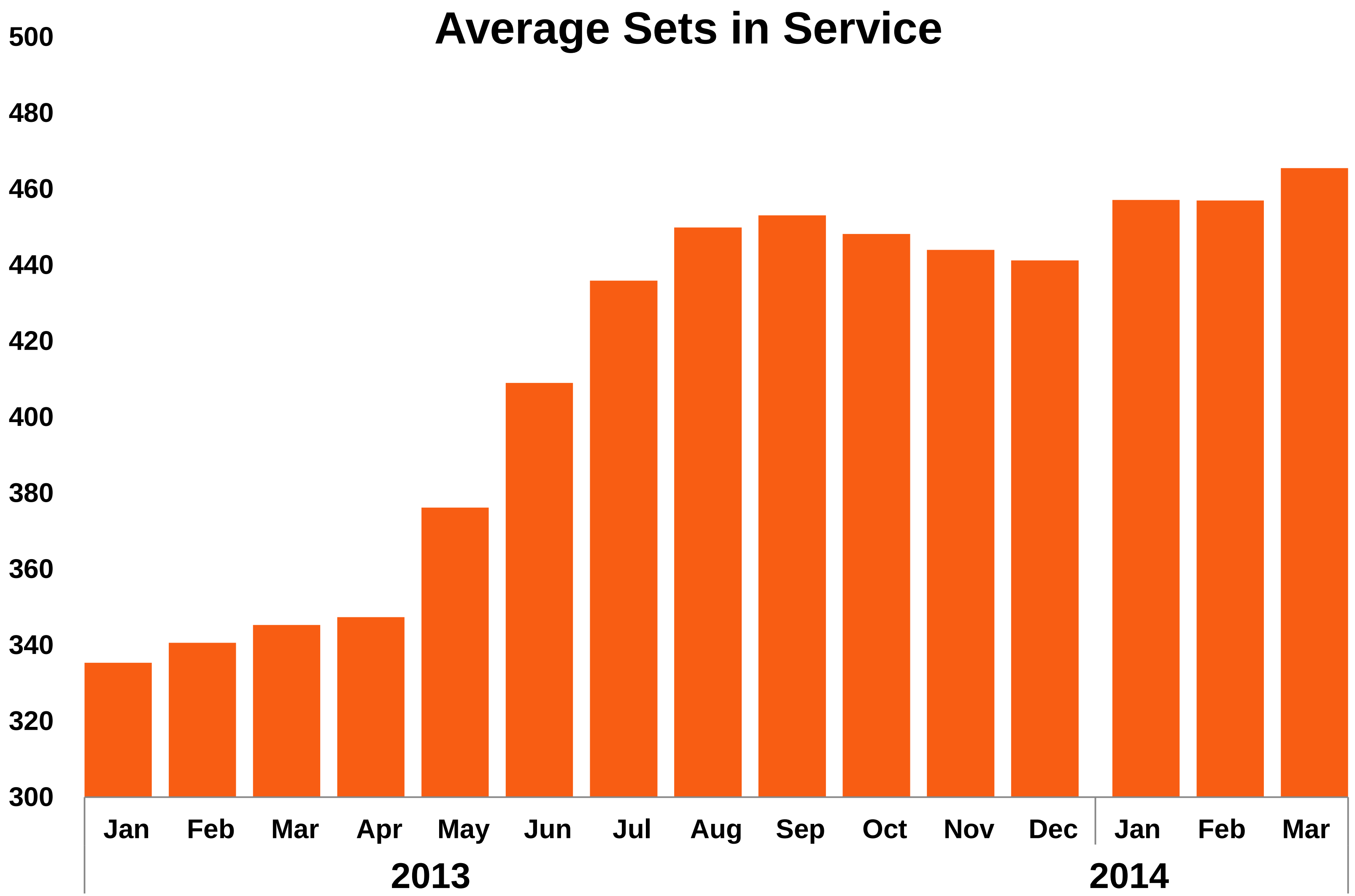


Gross Tons Per Day Comparing
4th Qtr 2006 to 2013

- Increases
- Decreases

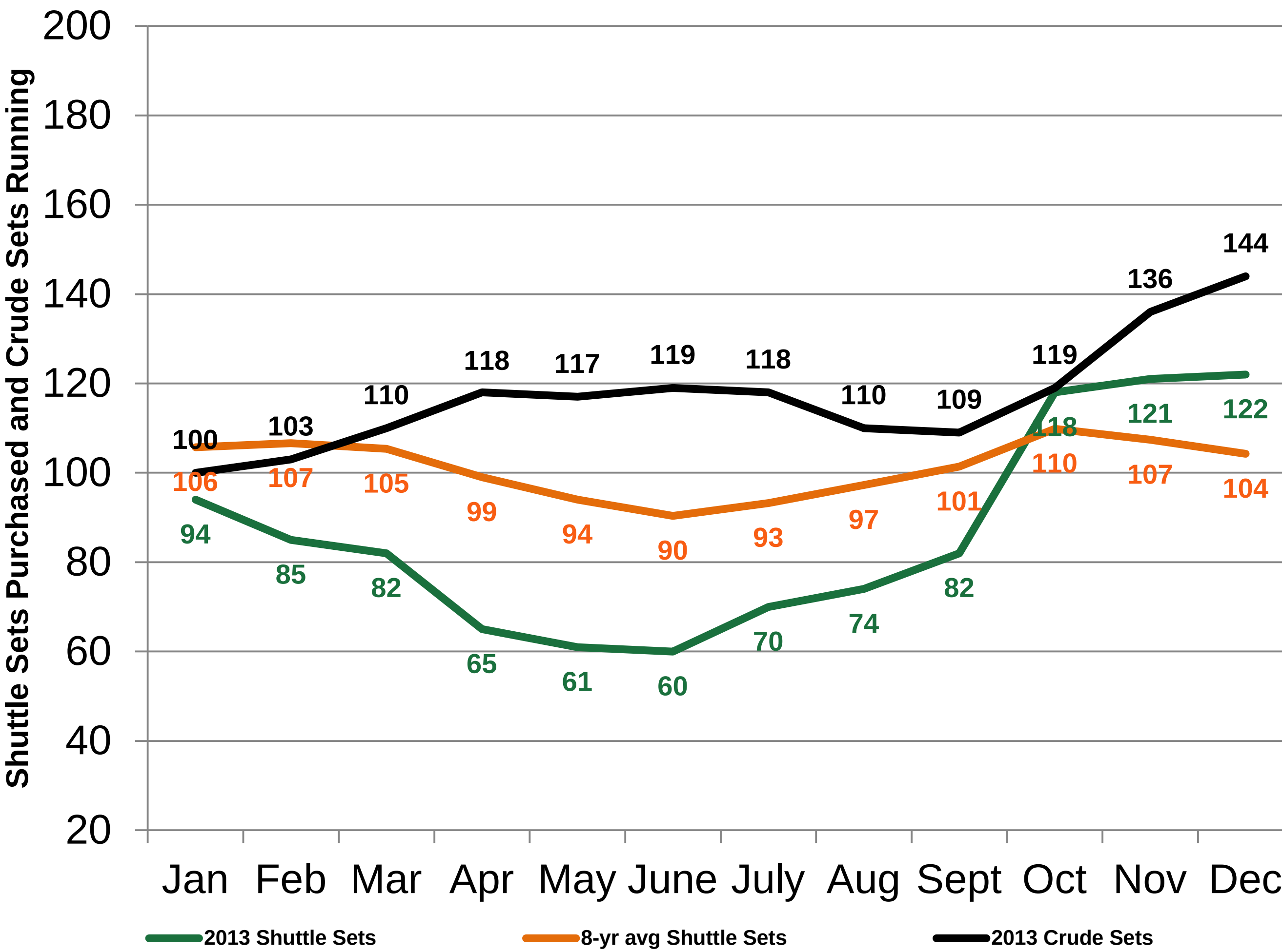
BNSF RAILWAY

Coal Sets in Service Rise Mid-2013

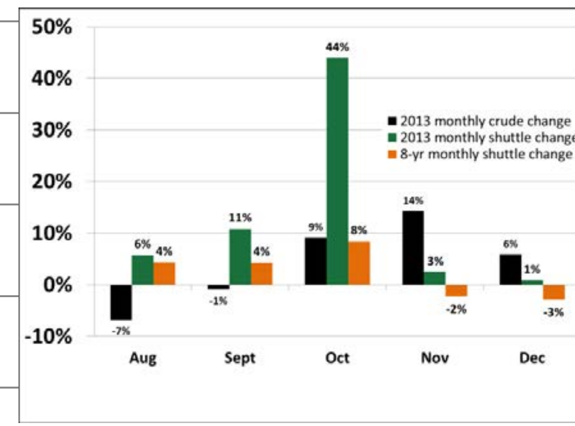


Results Manageable Until Oct. 2013

Crude and Ag Traffic Surged in October



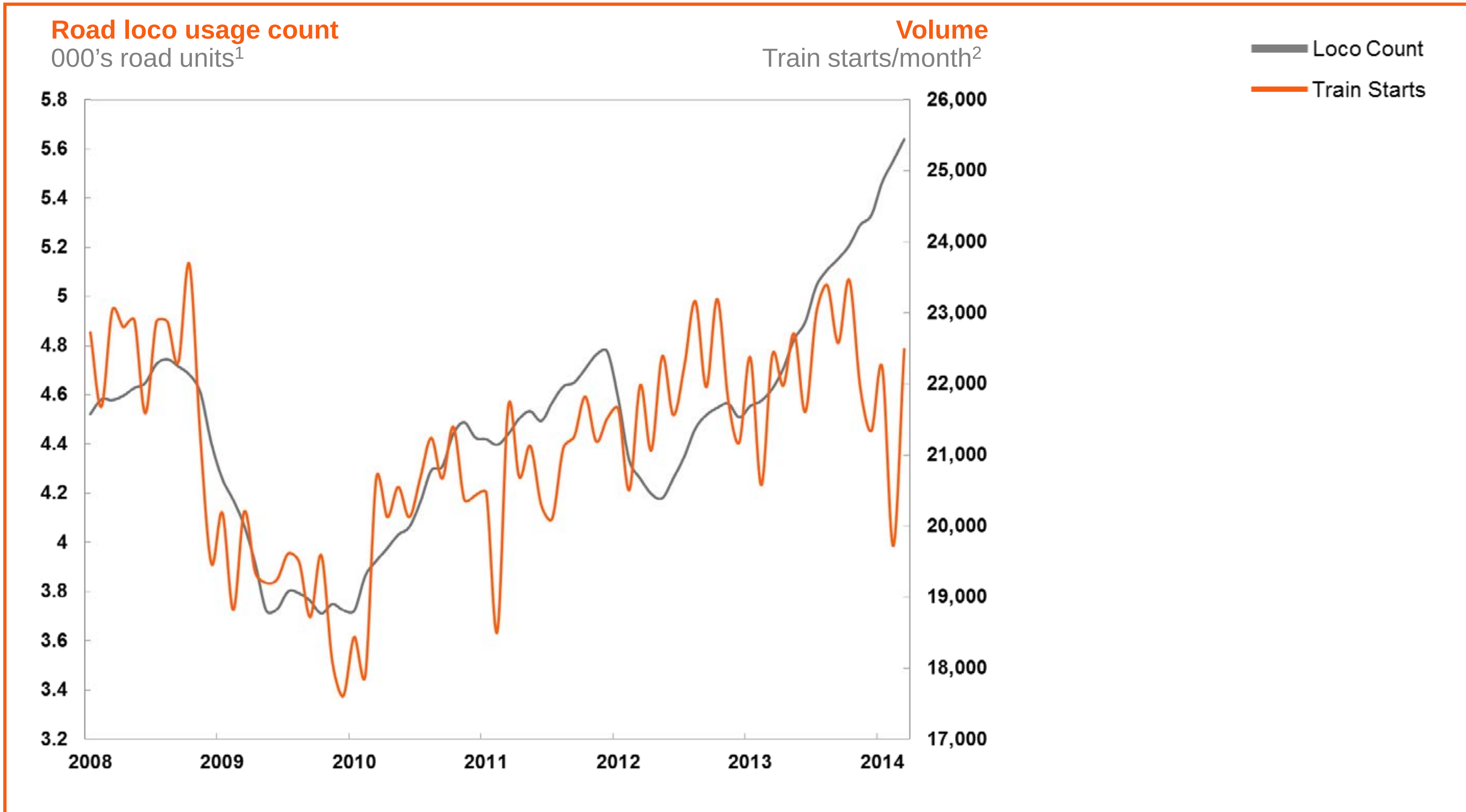
31 of the 36 Sept – Oct 2013 activations were in a 10-day period, Oct 1-10 … at request of shippers, matching harvest timing.



BNSF RAILWAY

Number of Locomotives Added

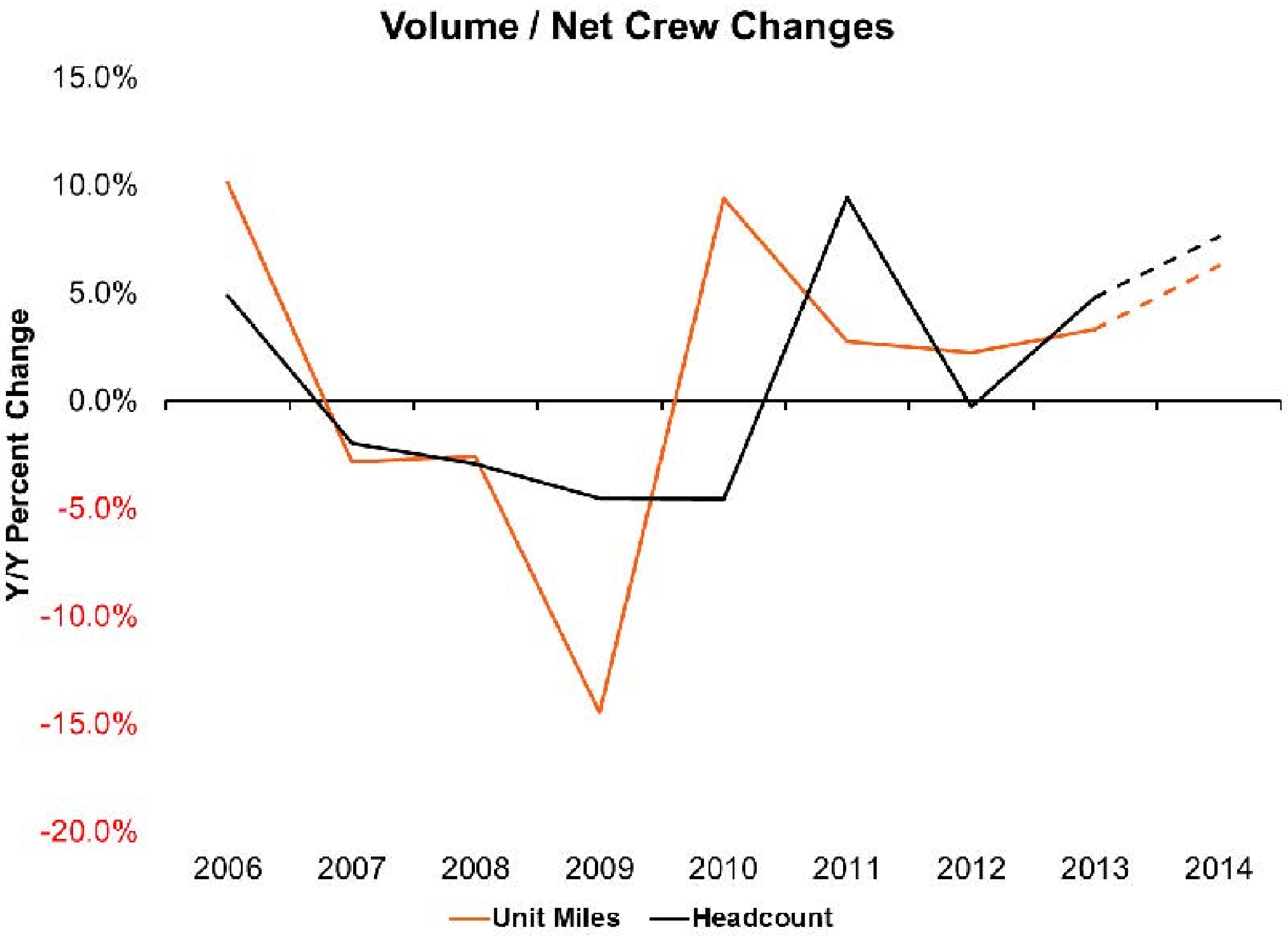
With Volume Growth



1 "Loco usage" of "road" category by month
2 Originating trains

SOURCE: BNSF Corporate Dashboard reports and graphs – Through 3/31/2014

Train Crews Have Also Kept Pace with Volume Growth



BNSF RAILWAY

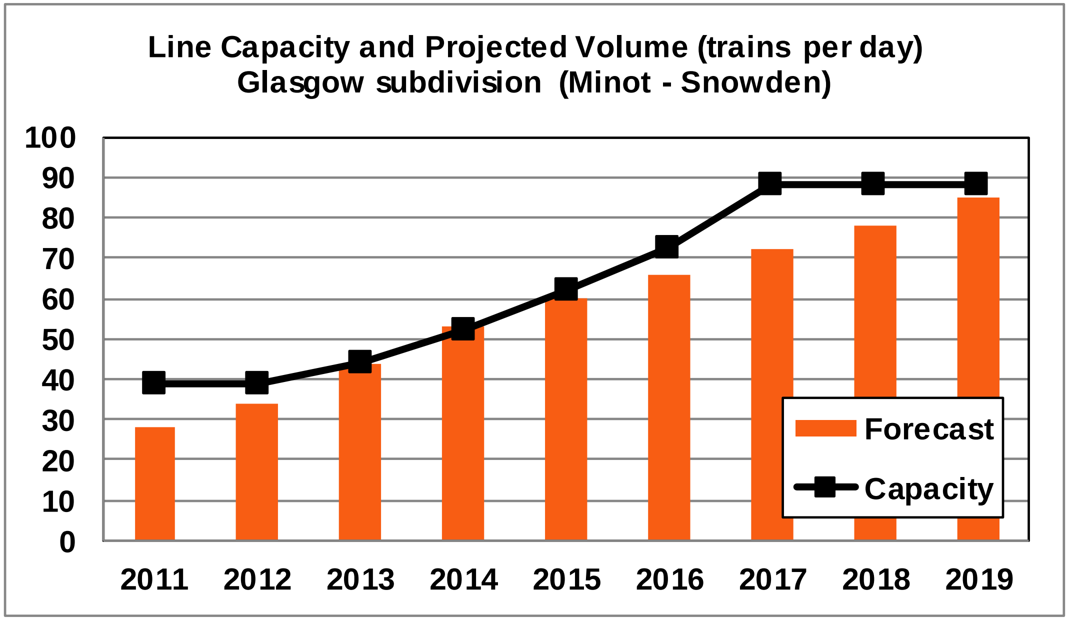
Northern Transcon: Increasing Capacity

Significant expansion investments made and are planned

New capacity has struggled to keep pace with significant volume increases
Goal: Add capacity to meet, and then exceed, volume

Glasgow subdivision:

- Construct 115 Miles of Double Track between 2013-2016
- 4 New Sidings Constructed since 2012
- 2012-2016 Total Line Expansion Capital for Glasgow Sub: $396M



Extreme Cold Weather Causes Service Setbacks

Velocity/Capacity Impacted

- Shorter trains required due to temperature; impacts crew and locomotive availability
- Employees allowed to work no more than 20 minutes outdoors followed by 10 minute warm-up

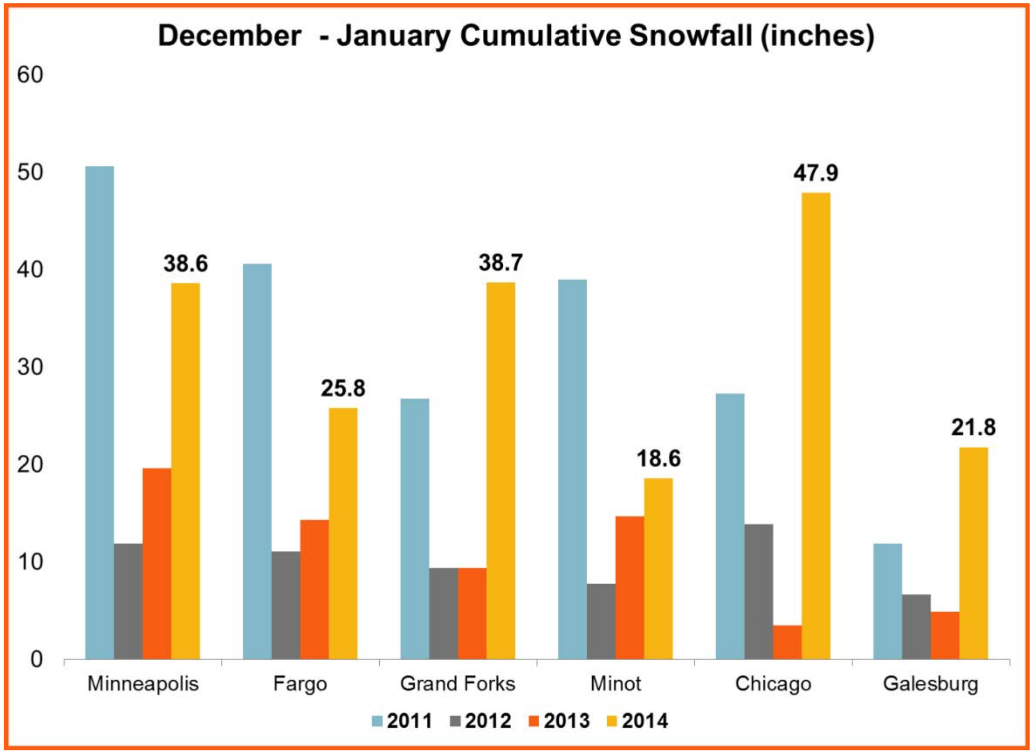
Significant personnel added to remove snow, clean switches, keep railroad running through winter storms

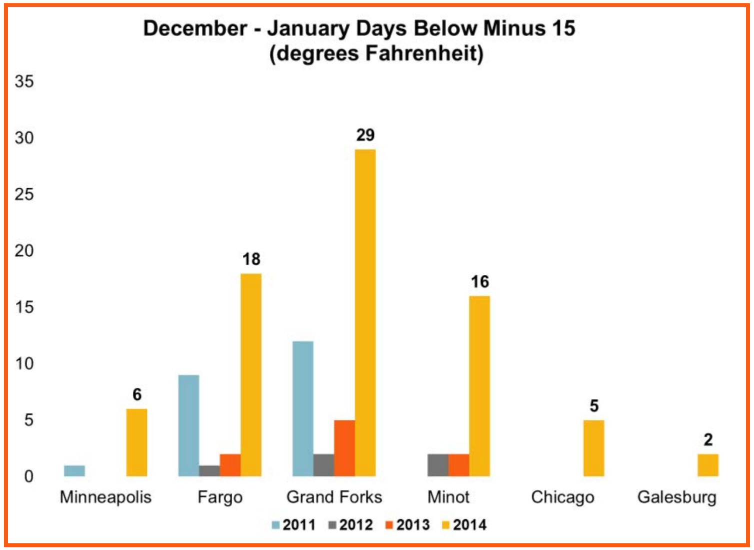
- 24-hour crews positioned to keep rails clear of snow and ice

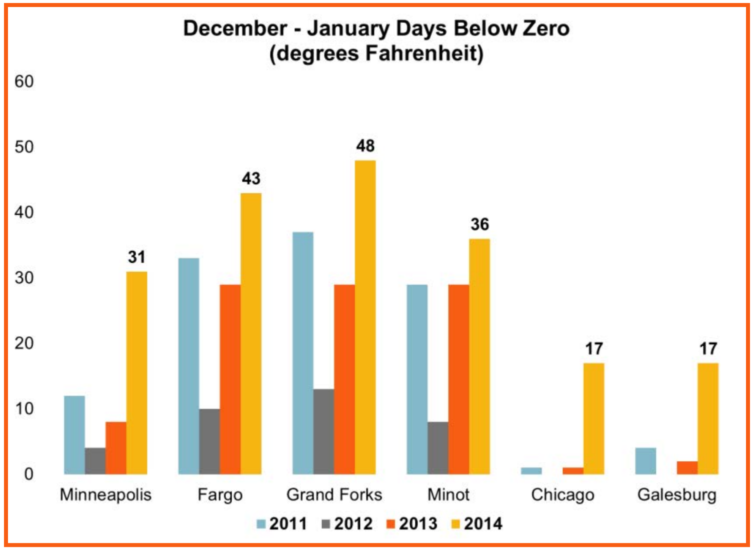
Chicago complex severely impacted

Northern Transcon Weather Extremes

- Days below zero and below -15 degrees increased significantly during this winter
- Chicago snowfall up substantially versus prior years





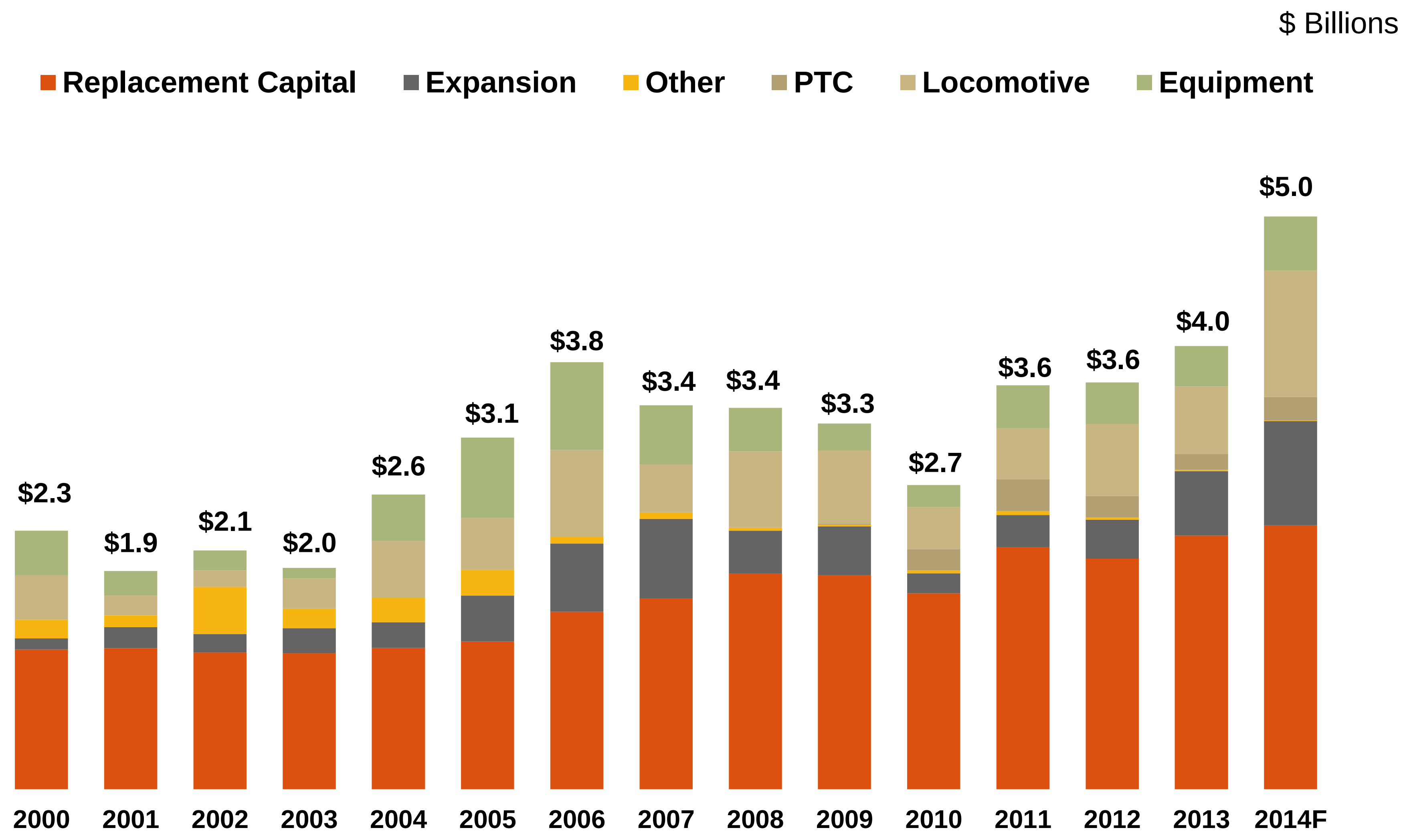


BNSF Taking Aggressive Short-term Action

Over-sourcing the Railroad, Focus on Areas of Highest Impact

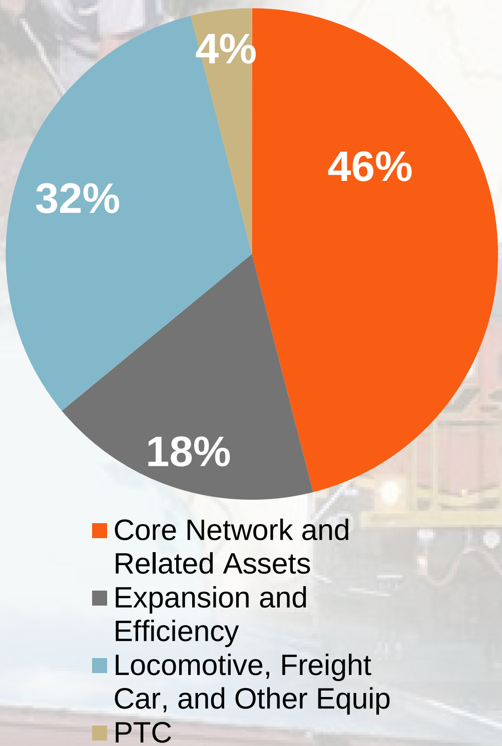
- Adding approximately **300 new TY&E employees** in the North, Jan.-Apr. and about **1,000** for the full year.
- Deploying additional locomotives. Added more than **400 locomotives** since last fall. Will add more than **100 new locomotives** this quarter. Active fleet is up **900 locomotives** year over year with cumulative effect of new, leased and reactivated surge fleet.
- **Temporarily assigned field supervisors** from across the system to key locations to assist in restoring velocity.
- **Improved processes** to decrease response time from point of customer notification to initiating action for severe service issues.

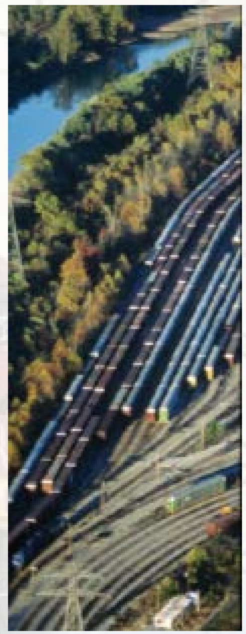
We are Deploying Unprecedented Capital



Record Capital Investment
Ensures Future Capability and Reliability

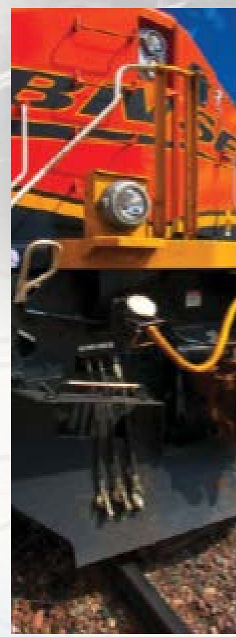
BNSF's 2014 Capital Commitment $5B





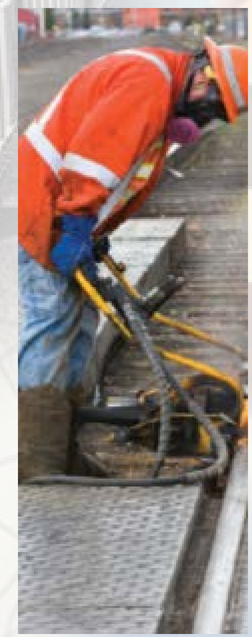
$2.3 billion

Core Network and Related Assets



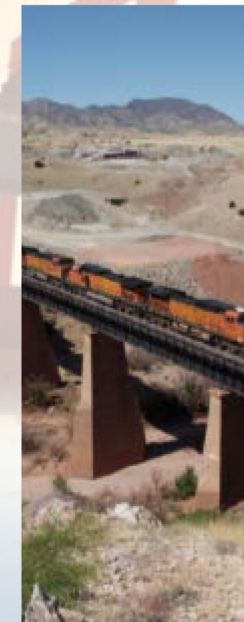
$1.6 billion

Loco, Freight Car, & Other Equip



$900 million

Expansion & Efficiency



$200 million

PTC

BNSF Long-Term Actions to Add Capacity

People

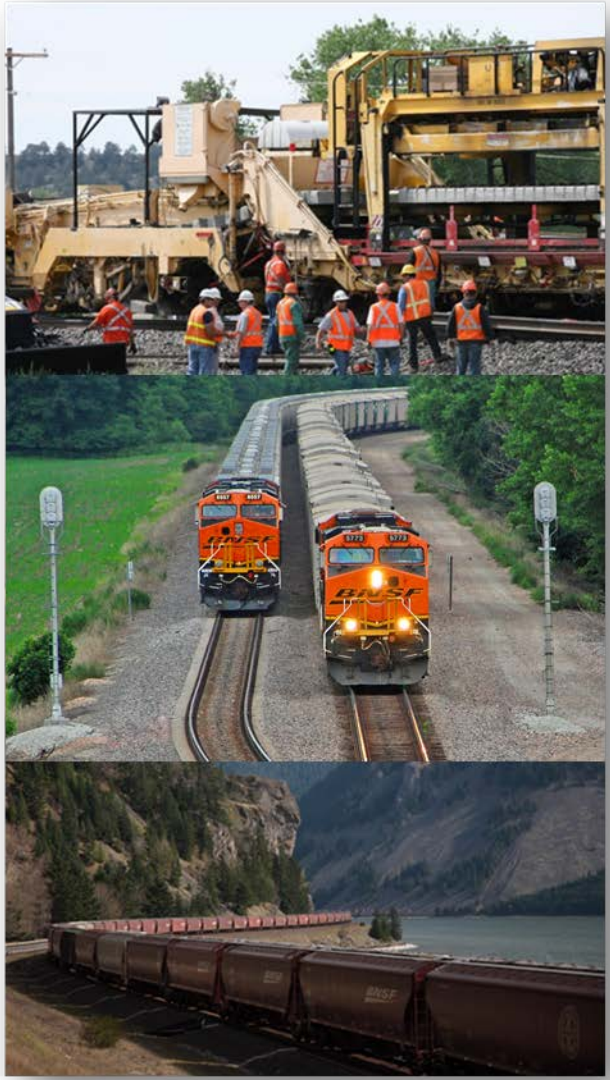
Plan to hire **5,000** additional employees in 2014, a large portion of which will be dedicated to Northern Corridor.

Locomotives

Active fleet is up 900 units with cumulative effect of new, leased and reactivated surge fleet. Purchasing **more than 500 locomotives** in 2014 to increase overall fleet to ensure necessary power where & when needed going forward.

Cars

Adding, replacing, and extending leases on **more than 5,000 cars** to maintain, refresh, and bolster supply. Cars to support new business, covered grain hoppers and various car types support Industrial Products.



BNSF Long-Term Actions to Add Capacity

Track

- Investing **$600 million** in terminal & line capacity expansion projects, much of which will be spent in Northern Corridor.
- Large investment in replacement and maintenance to ensure we are operating at optimal levels.
- Added siding & terminal track capacity to accommodate rapid growth while also improving our existing infrastructure.
- Will complete **more than 66 miles** of new second main track on busiest segments of corridor in 2014.

BNSF RAILWAY

BNSF Long-Term Actions to Add Capacity

BNSF 2014 Corridor Investment Outlook

Recovery Outlook by Region

South Region

Seeing improvement as Chicago recovers from weather conditions and normal terminal operations commence.

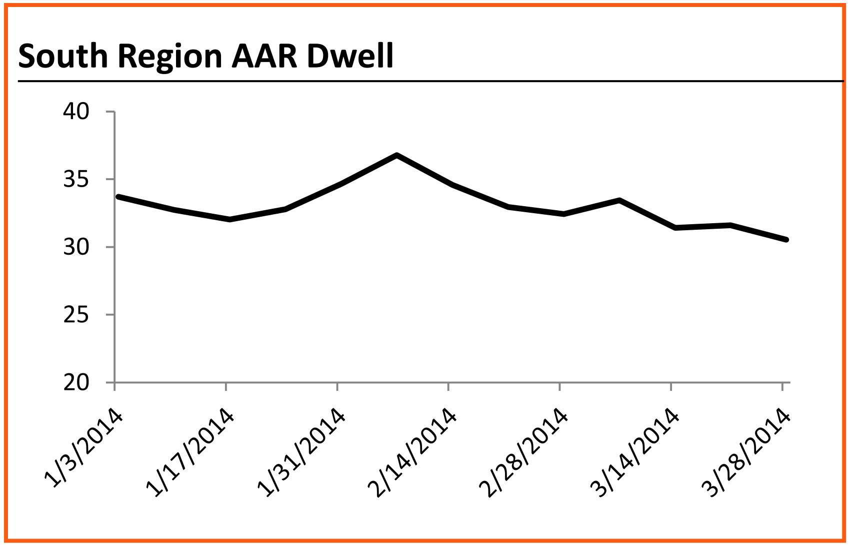
Central Region

Gradual improvement, more pronounced in spring as weather improves, short-term demand spikes moderate and additional locomotives come online.

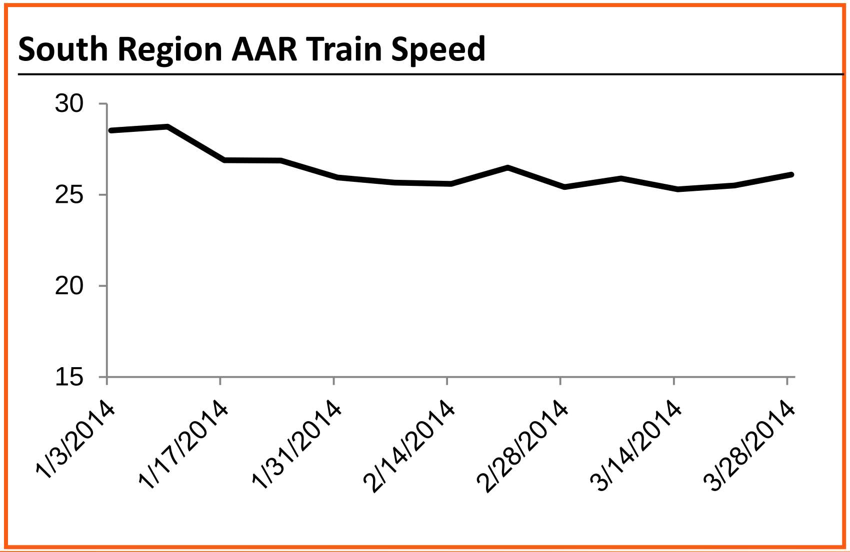
North Region

Will continue to improve as new capacity is added and comes online through 2014. Anticipated carload service improvement as weather continues to ease and Chicago interchange normalizes.

South Region



	Baseline 2/1-2/7	Actuals 1st QTR	Change from Baseline
AAR Dwell	36.8	32.9	⇩10.6%



	Baseline 2/1-2/7	Actuals 1st QTR	Change from Baseline
AAR Train Speed	25.7	26.2	⇧1.9%

Recovery Outlook by Region

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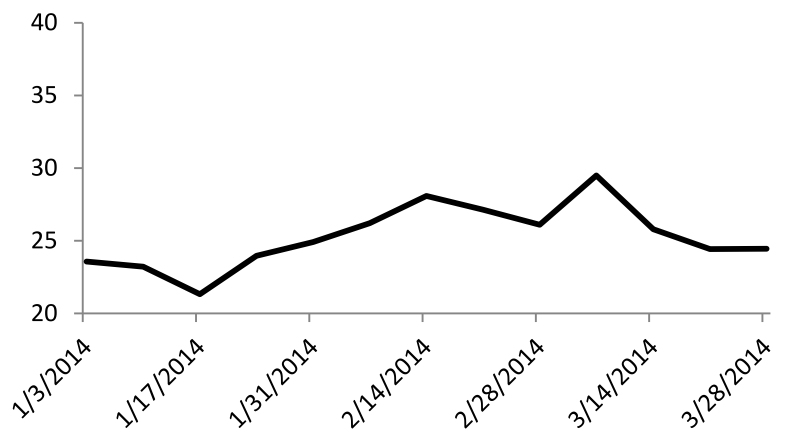
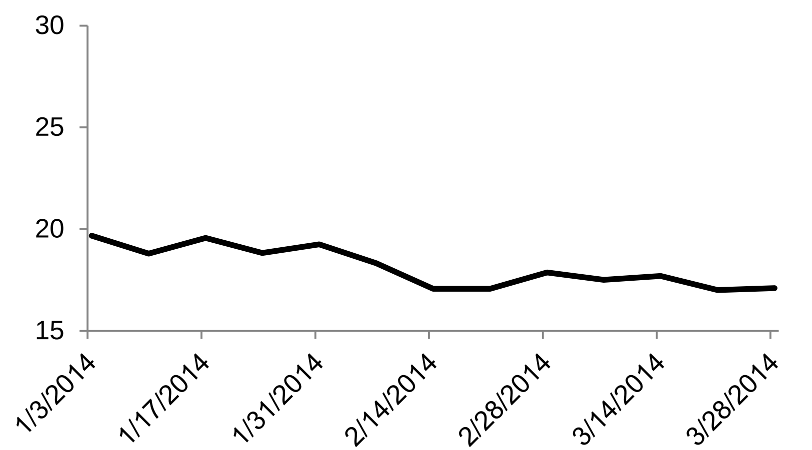
Central Region

Central Region AAR Dwell



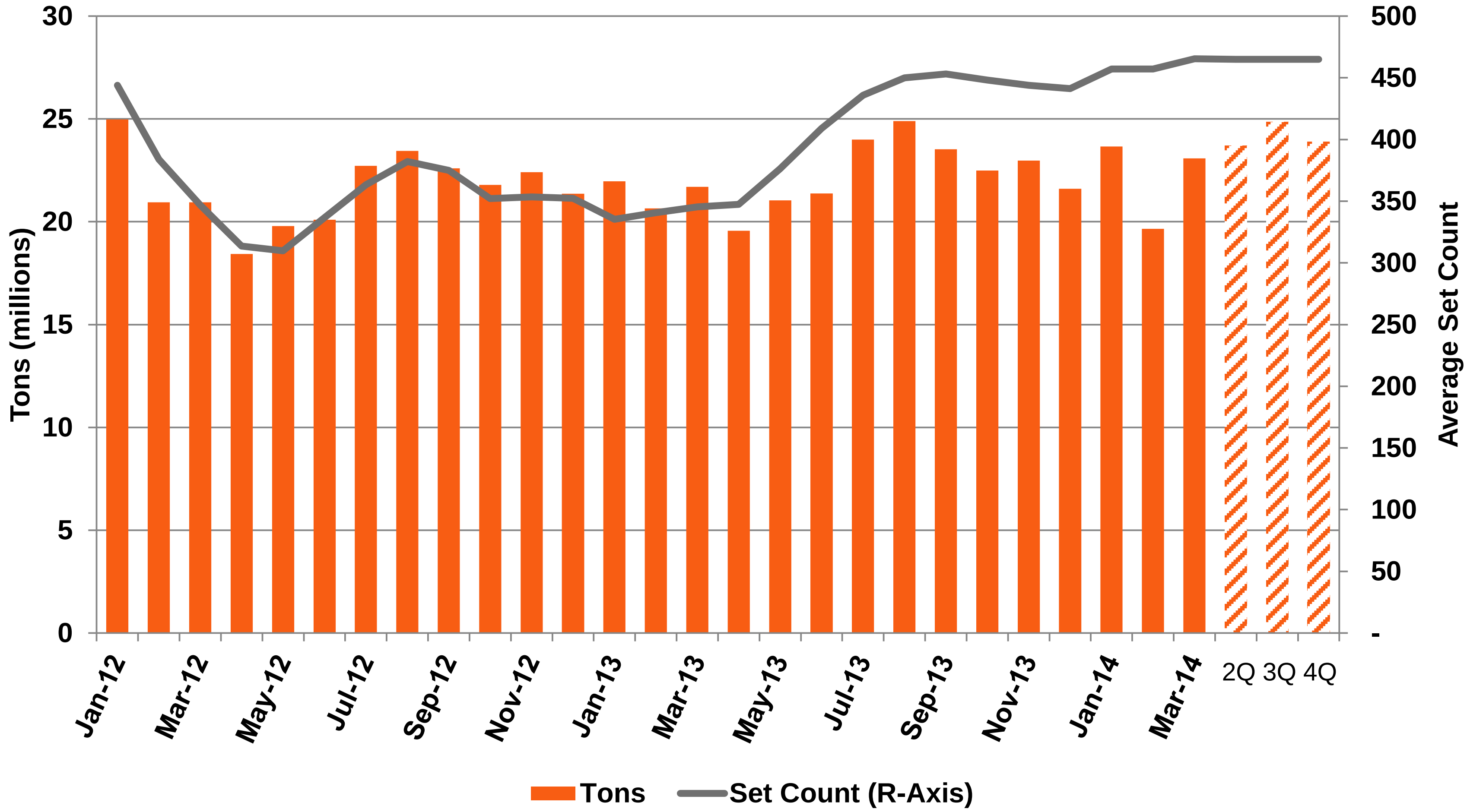
	Baseline 2/1-2/7	Actuals 1st QTR	Change from Baseline
AAR Dwell	26.2	25.0	⇩4.6%

Central Region AAR Train Speed



	Baseline 2/1-2/7	Actuals 1st QTR	Change from Baseline
AAR Train Speed	18.3	18.0	⇩1.6%

Coal Tons



30
25
20
15
10
5
0
500
450
400
350
300
250
200
150
100
50
-
Tons (millions)
Average Set Count
Jan-12
Mar-12
May-12
Jul-12
Sep-12
Nov-12
Jan-13
Mar-13
May-13
Jul-13
Sep-13
Nov-13
Jan-14
Mar-14
2Q 3Q 4Q
Tons
Set Count (R-Axis)

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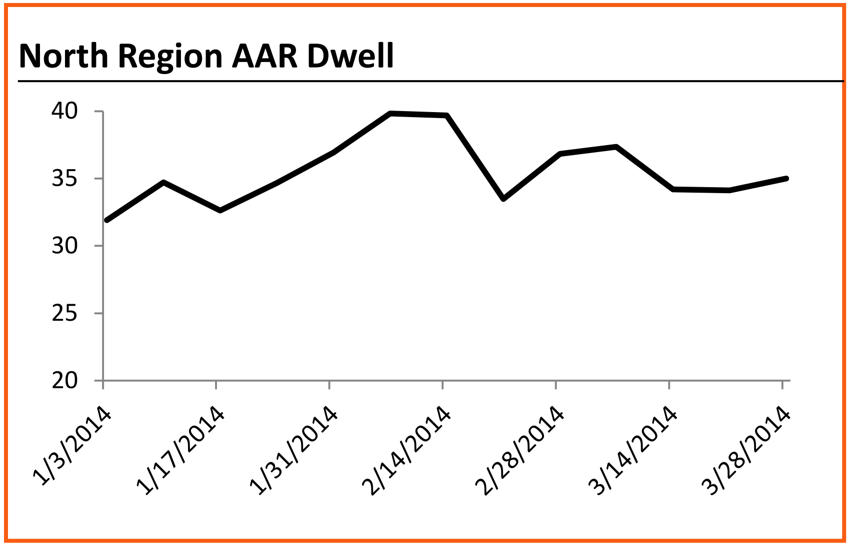
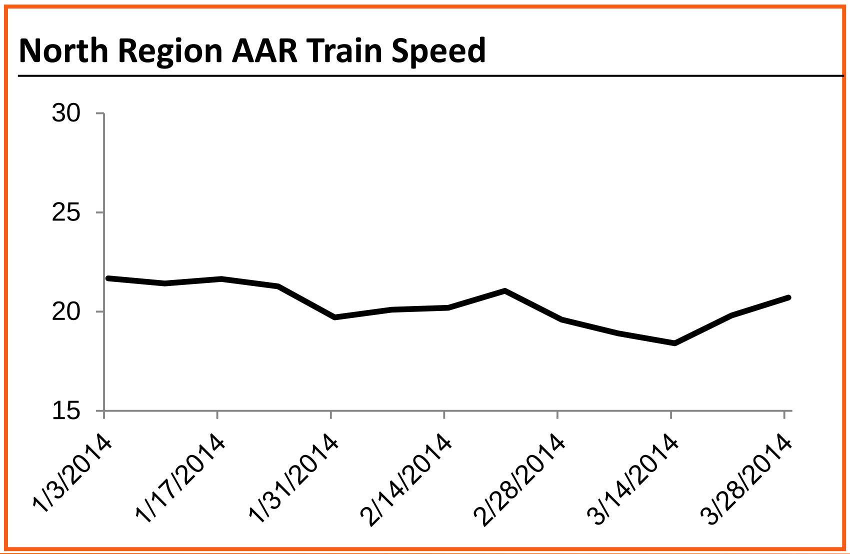
North Region



	Baseline 2/1-2/7	Actuals 1st QTR	Change from Baseline
AAR Dwell	39.8	35.5	⇩10.8%

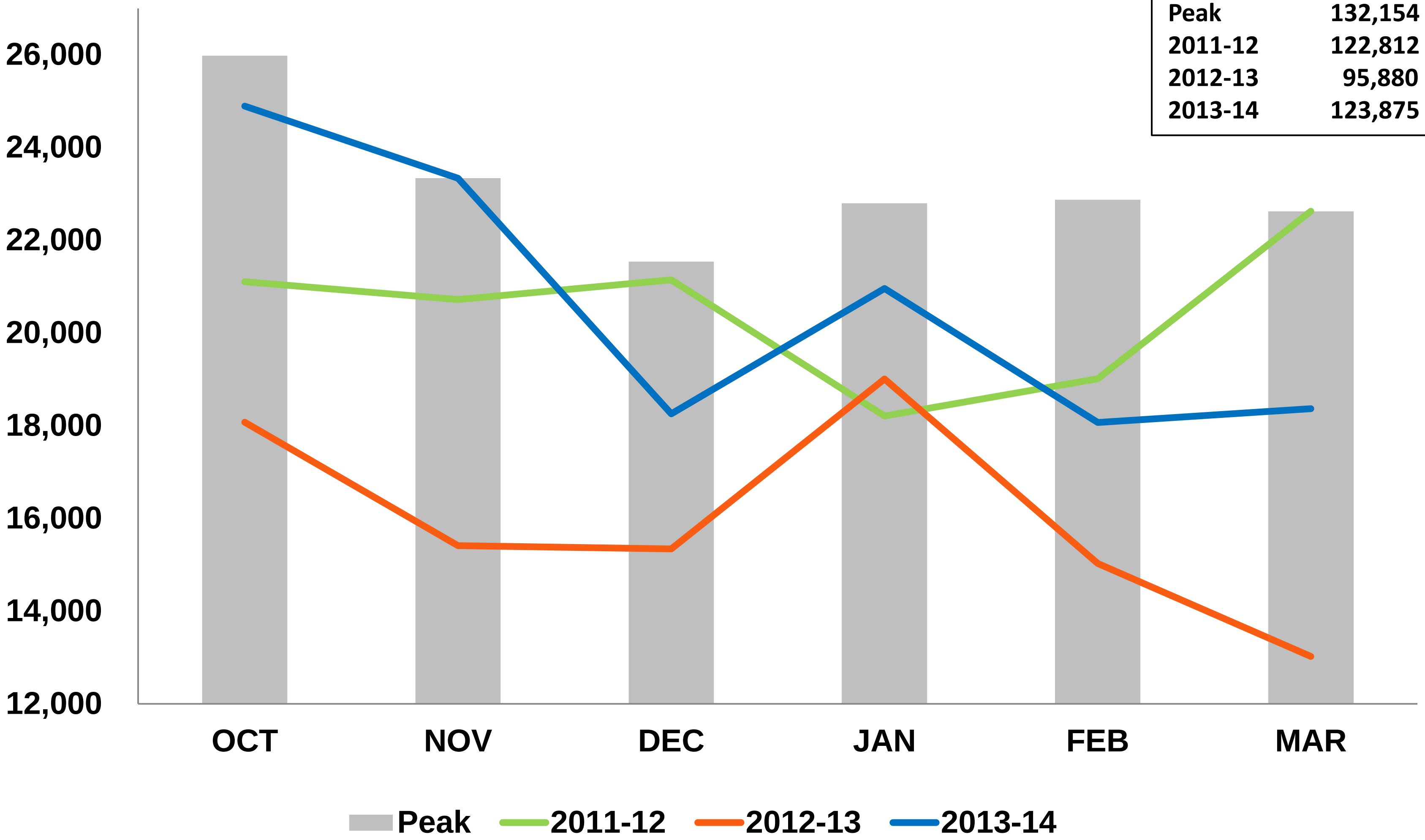


	Baseline 2/1-2/7	Actuals 1st QTR	Change from Baseline
AAR Train Speed	20.1	20.3	⇧1.0%

BNSF PNW Export Grain Units 2013-14

Exceeds 2011-12

Oct – Mar Total Units	
Peak	132,154
2011-12	122,812
2012-13	95,880
2013-14	123,875



Amtrak Performance: Empire Builder

Working Through Challenges

- Average Daily Lost Hours in Feb./Mar. on BNSF:

	Feb.	Mar.
Eastbound:	5.3	5.7
Westbound:	3.5	5.3

- Average Daily Lost Hours for Apr. 2014 is 2.9 for Westbound and 2.4 for Eastbound*
- Multiple Feb. and Mar. cancellations due to increased mudslides in WA and avalanches in MT

Outlook

- New Amtrak schedule in place Apr. 15
- Investment will reduce slow orders and service variability
- Improvement expected throughout 2014

BNSF RAILWAY

*Data through April 6, 2014

Frequent Customer Contact

- **Customer Communication**
- **Up-to-Date Metrics and Information**
- **Personal Meetings and Outreach**
- **Planned Efforts for the Rest of 2014**

ServiceAdvisory

To: BNSF Customers

April 4, 2014

Service Update for Friday, April 4

We continue to make progress in our efforts to improve service levels and have seen consistent improvements compared to February, when we experienced our most challenging operational issues.

This week, however, significant winter weather along our Northern Corridor hampered some efforts to improve the fluidity of our network. While we will likely continue to experience weeks where overall progress is not as strong as the previous week, we expect to continue to make steady improvements throughout the year. The following key indicators demonstrate our current performance:

Trains holding:

- Our snapshot of the number of trains holding on the BNSF system showed that we ended March holding 80 fewer trains than the beginning of the month. While we are disappointed at the number of trains that continue to be held short of their destination, we still recognize that the winter of 2013-2014 continues to create operational challenges impacting the Northern Plains and Upper Midwest. Our trains holding measurement is a count of trains not running due to a lack of a critical resource indicates more congestion is occurring on the network.

Coal velocity:

- The velocity for the movement of coal (miles per day) improved seven percentage points from last week*, driven by a six percent improvement in the Central Region. This improvement allows us to increase our loadings per day, helping to continue the stabilization of customer stockpiles.

Intermodal and Automotive performance:

- On-time performance improved nearly seven percentage points from last week, driven by improved car velocity and progress toward more typical network balance and traffic flows.

Industrial Products:

- Terminal dwell improved when compared to last week, with a 14 percent improvement in the time a railcar spends at the terminal. However, velocity declined four percent during the past week.

Agricultural Products:

- Past dues improved eight percent when compared to last week. Velocity declined five percent during the same time frame.

All of our customers are very important to BNSF and we continue to do all we can to serve you now and in the future. We welcome your feedback or questions about the efforts we are taking to improve service.

Thank you for choosing BNSF as your transportation service provider.

*March 26, 2014 vs. April 2, 2014.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RAILWAY

Appendix

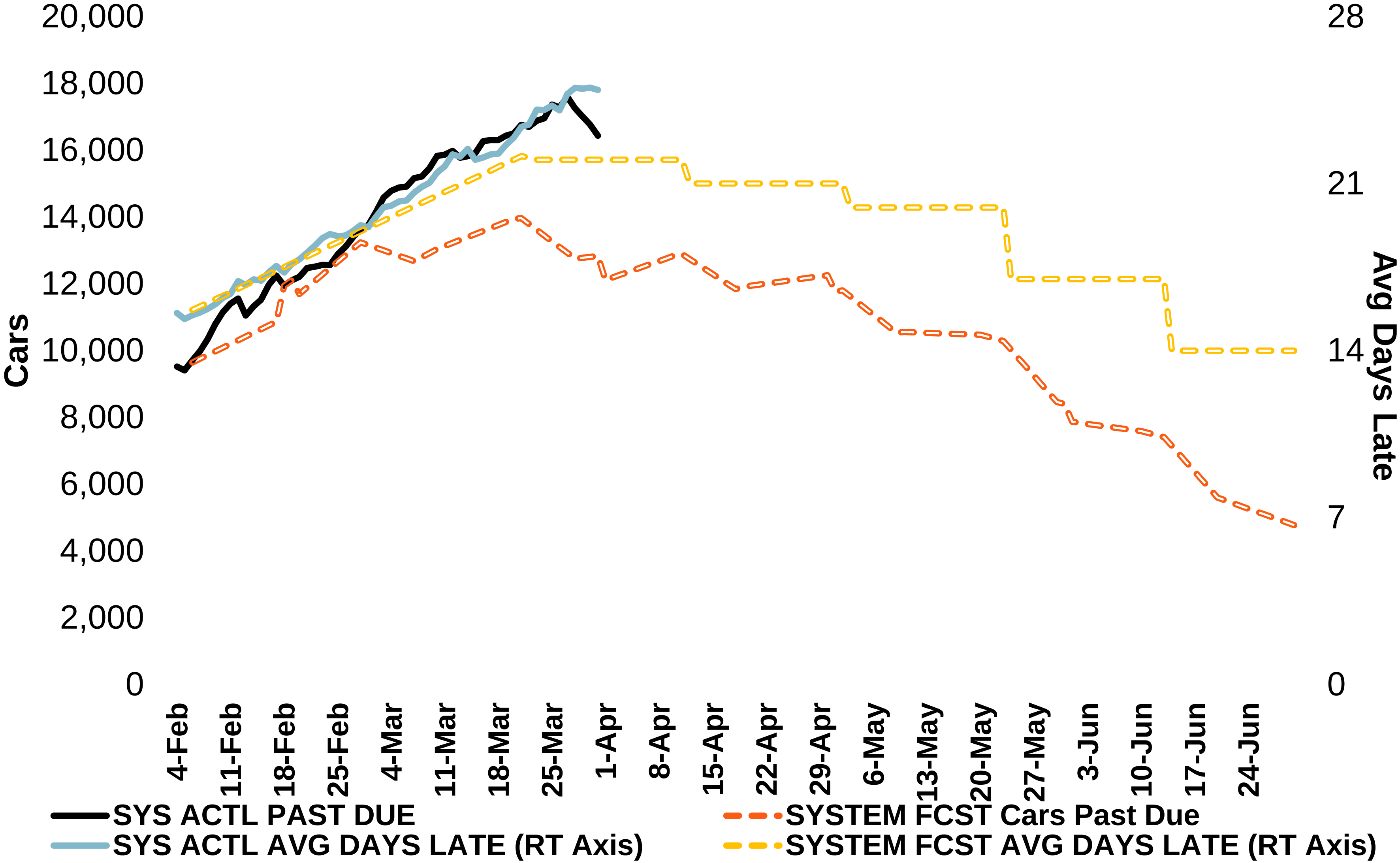
BNSF Dashboard Service Metrics

	Goal 3/31	Baseline 2/7	Actuals 3/31	Change from Goal
Past Due Cars # of Cars	12,831	9,982	16,432	⇧28.1%
Avg Days Late	22.0	15.6	24.9	⇧13.2%

	Goal Q1 2014	Baseline 2/1-2/7	Actuals 1st QTR	Change from Baseline
Coal Avg Monthly Tons (in millions)	23.7	19.2	22.1	⇧15.1%
IM System Transit Days	4.20	5.32	5.04	⇩5.3%
AAR Terminal Dwell Hours	29.3	34.6	31.4	⇩9.2%
AAR Train Speed	N/A	21.8	21.9	⇧0.5%

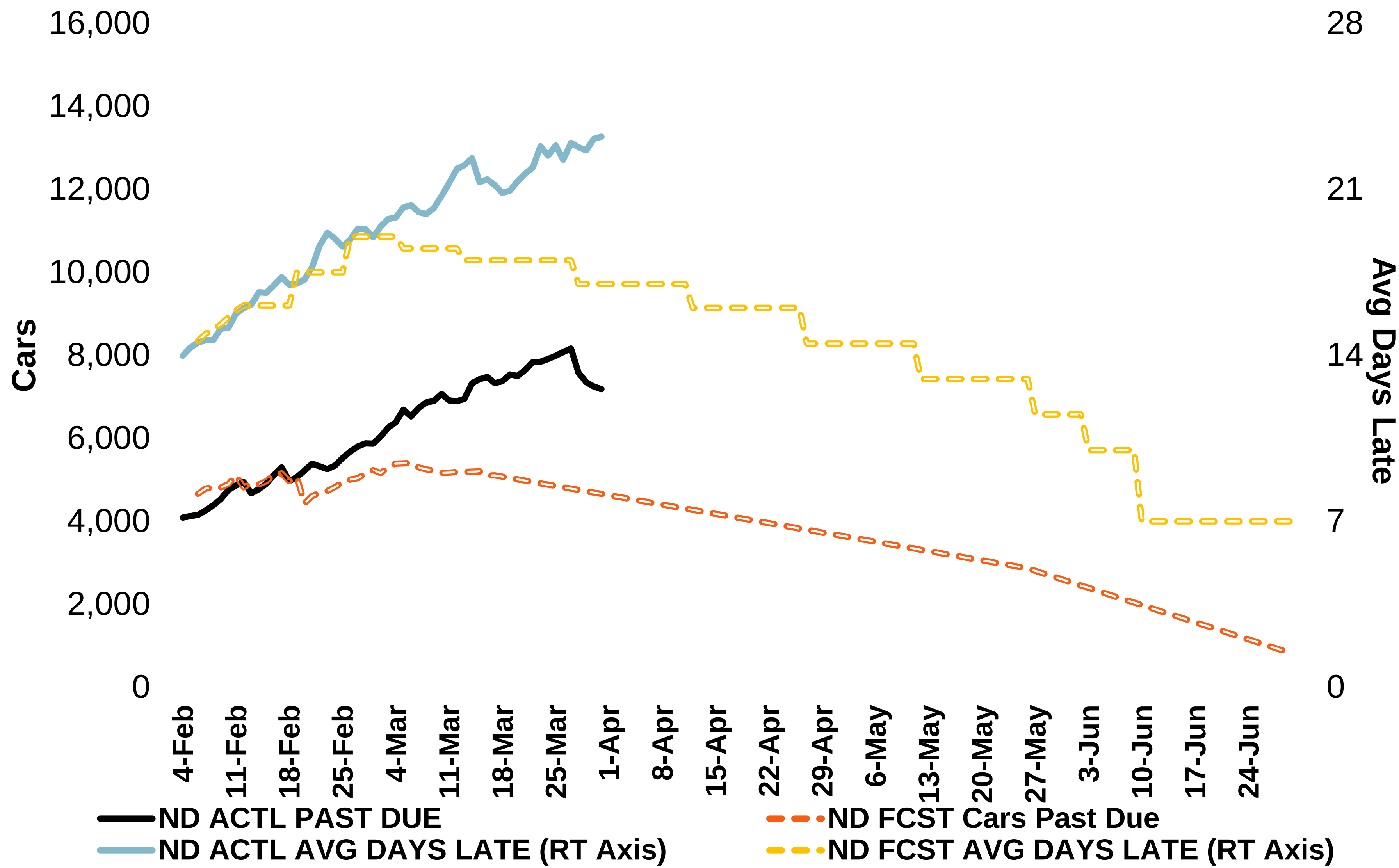
BNSF RAILWAY

System Ag Past Due Cars

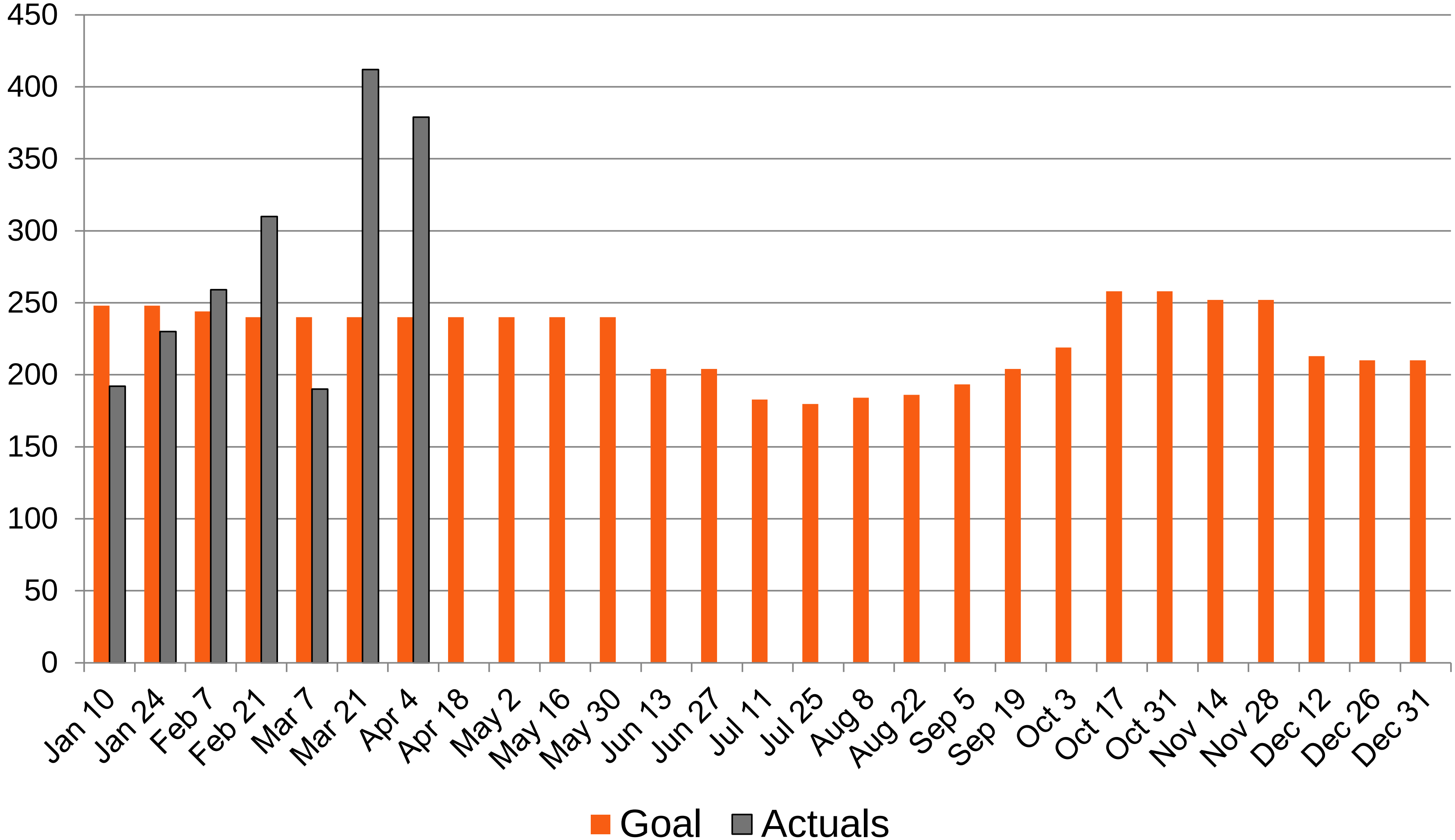


Data through March 31, 2014

North Dakota Ag Past Due Cars



Sugar Cars Spotted – North Dakota



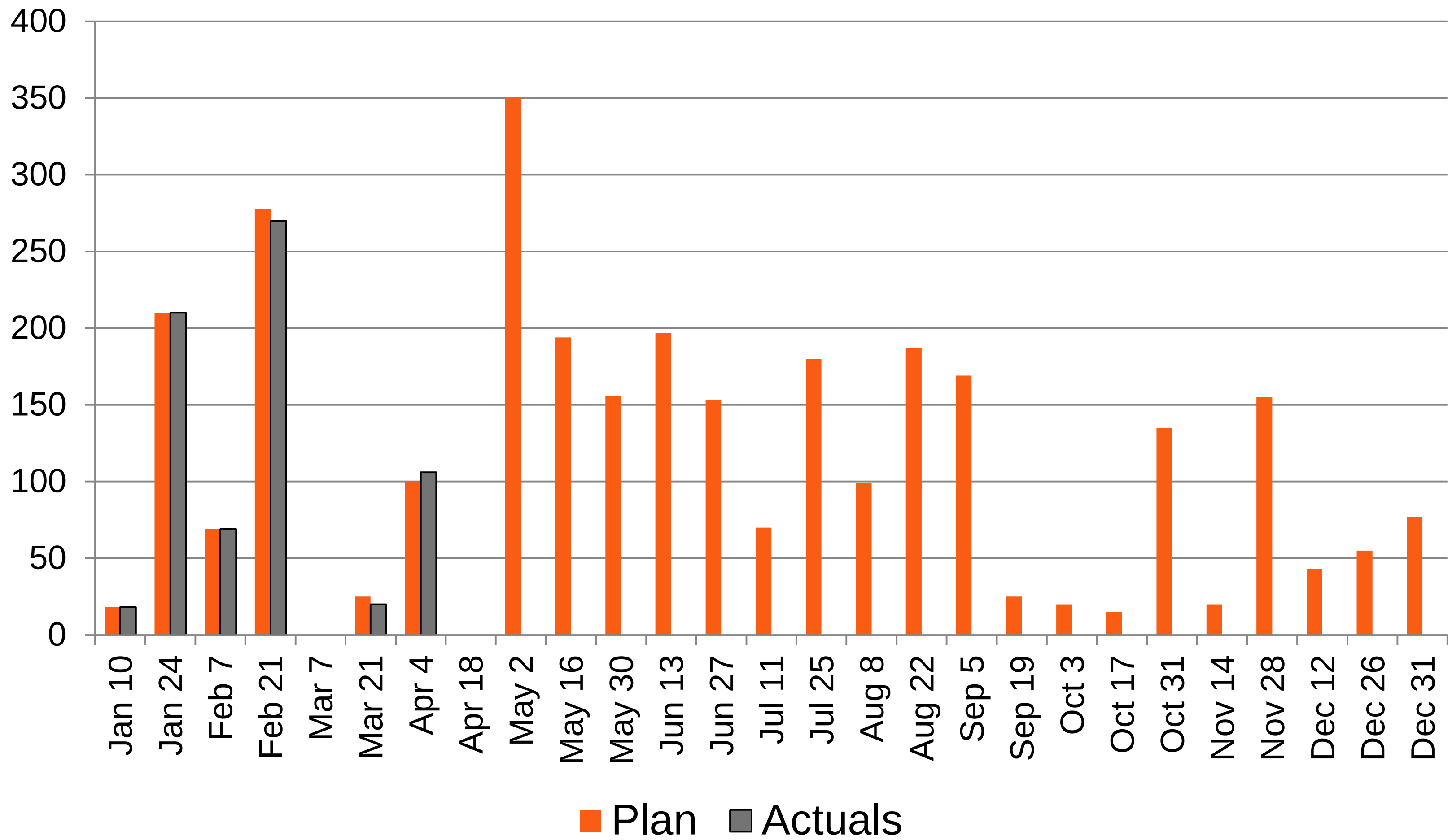
BNSF Long-Term Actions to Add Capacity

$ Millions	Annual Goal	Q1 2014 Goal	Prior Period (QTD 3/21)	Actuals 1st QTR
People Hiring				
TY&E	3,000	650	587	692
Eng & Mech	2,000	750	523	597
Locomotive Acquisitions	500	108	107	112
Car – Acquisitions, Replacements & Extensions	5,000	300	179	239
Expansion Capital	$ 900	$ 130	$65*	$120
Replacement & Maint Capital	$ 2,300	$ 430	$283*	$477

BNSF RAILWAY

* QTD 3/21 represents information YTD through Feb 2014.

System TYE Employees Hired & Trained

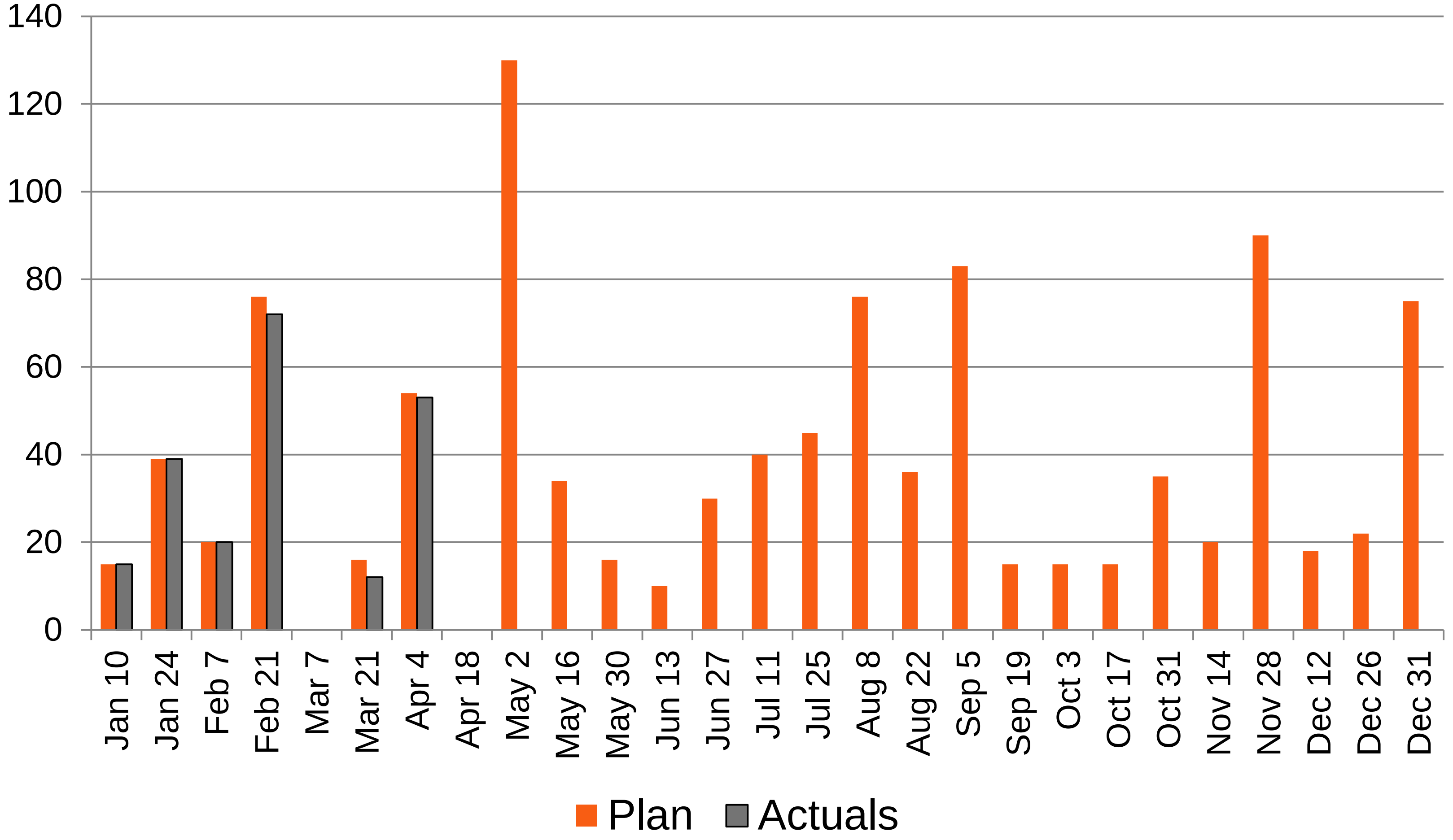


Cumulative	Jan	Feb	Mar *	Apr **	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Plan	297	575	650	1,100	1,400	1,750	2,000	2,450	2,500	2,650	2,825	3,000
Actual	297	567	692	693								

* Most of the hiring that happened during the two week period ending April 4th occurred in March.

** Actual is YTD through 4/4/14, plan is YTD through 4/30/14.

North TYE Employees Hired & Trained

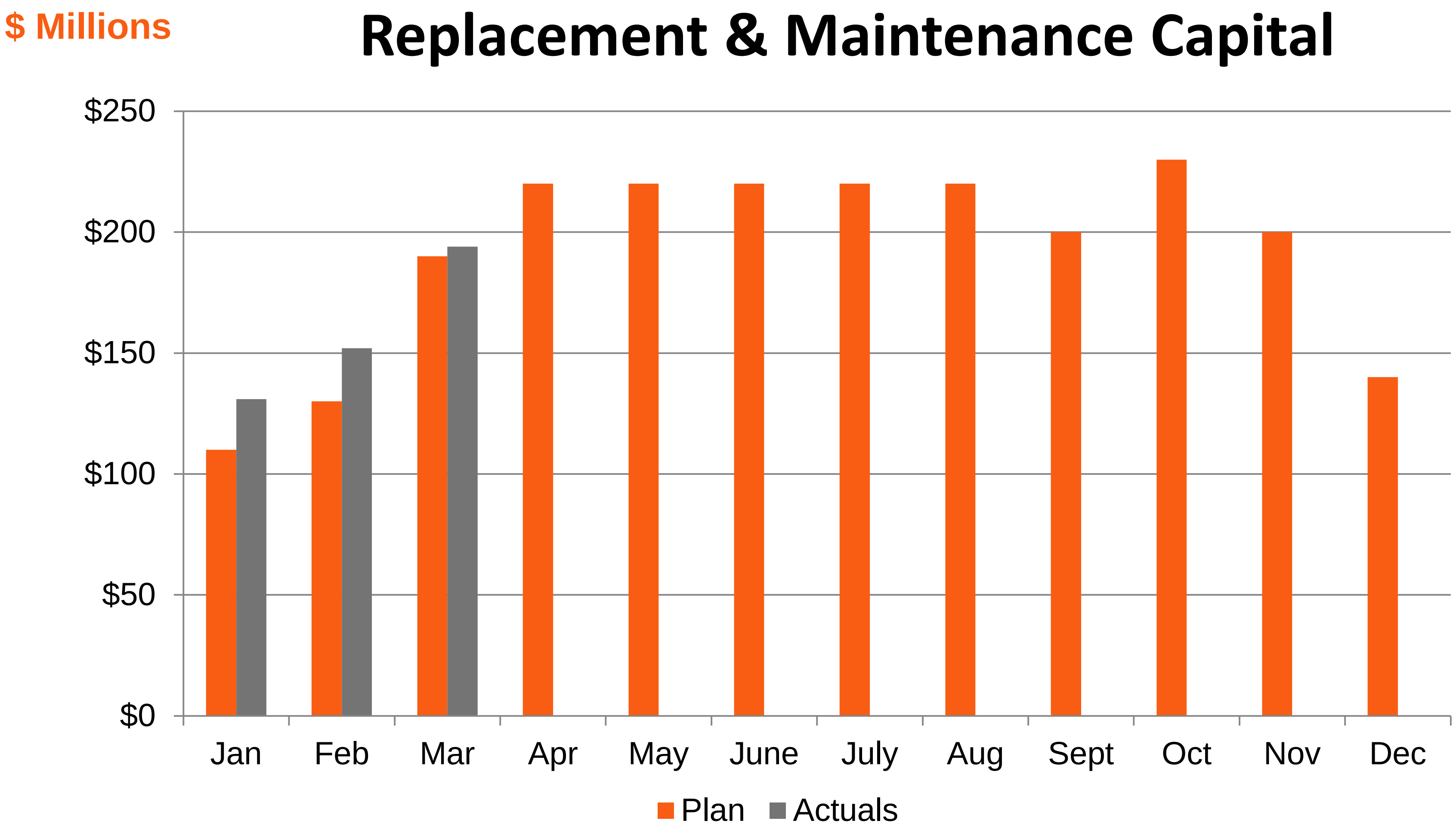


Cumulative	Jan	Feb	Mar *	Apr **	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Plan	74	150	220	350	400	470	525	720	750	800	910	1,025
Actual	74	146	211	211								

* All of the hiring that happened during the two week period ending April 4th occurred in March.

** Actual is YTD through 4/4/14, plan is YTD through 4/30/14.

System Capacity and Reliability

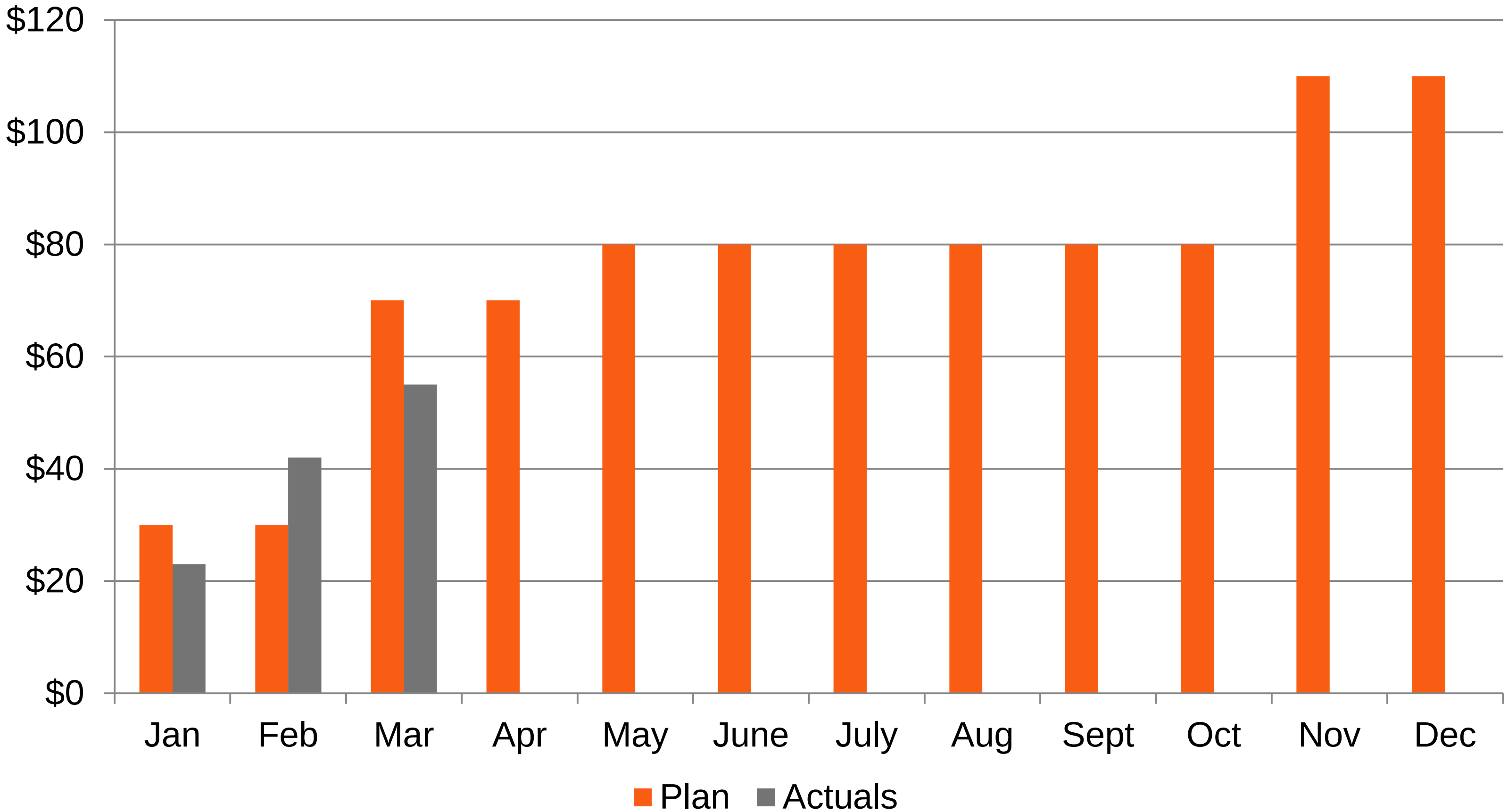


Cumulative	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Plan	$110	$240	$430	$650	$870	$1,090	$1,310	$1,530	$1,730	$1,960	$2,160	$2,300
Actual	$131	$283	$477									

System Capacity and Reliability

$ Millions

Expansion & Efficiency Capital

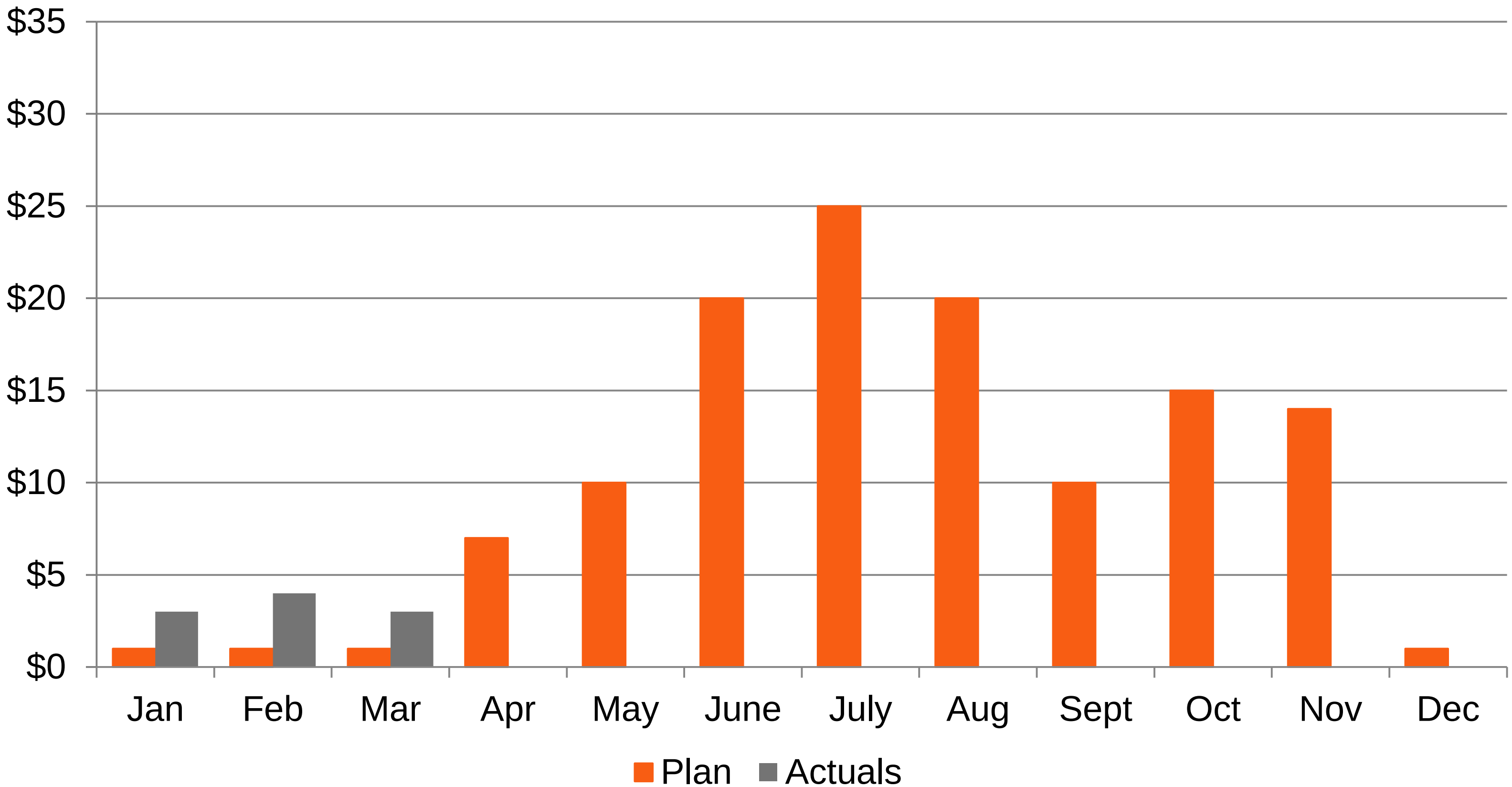


Cumulative	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Plan	$30	$60	$130	$200	$280	$360	$440	$520	$600	$680	$790	$900
Actual	$23	$65	$120									

North Dakota Capacity and Reliability

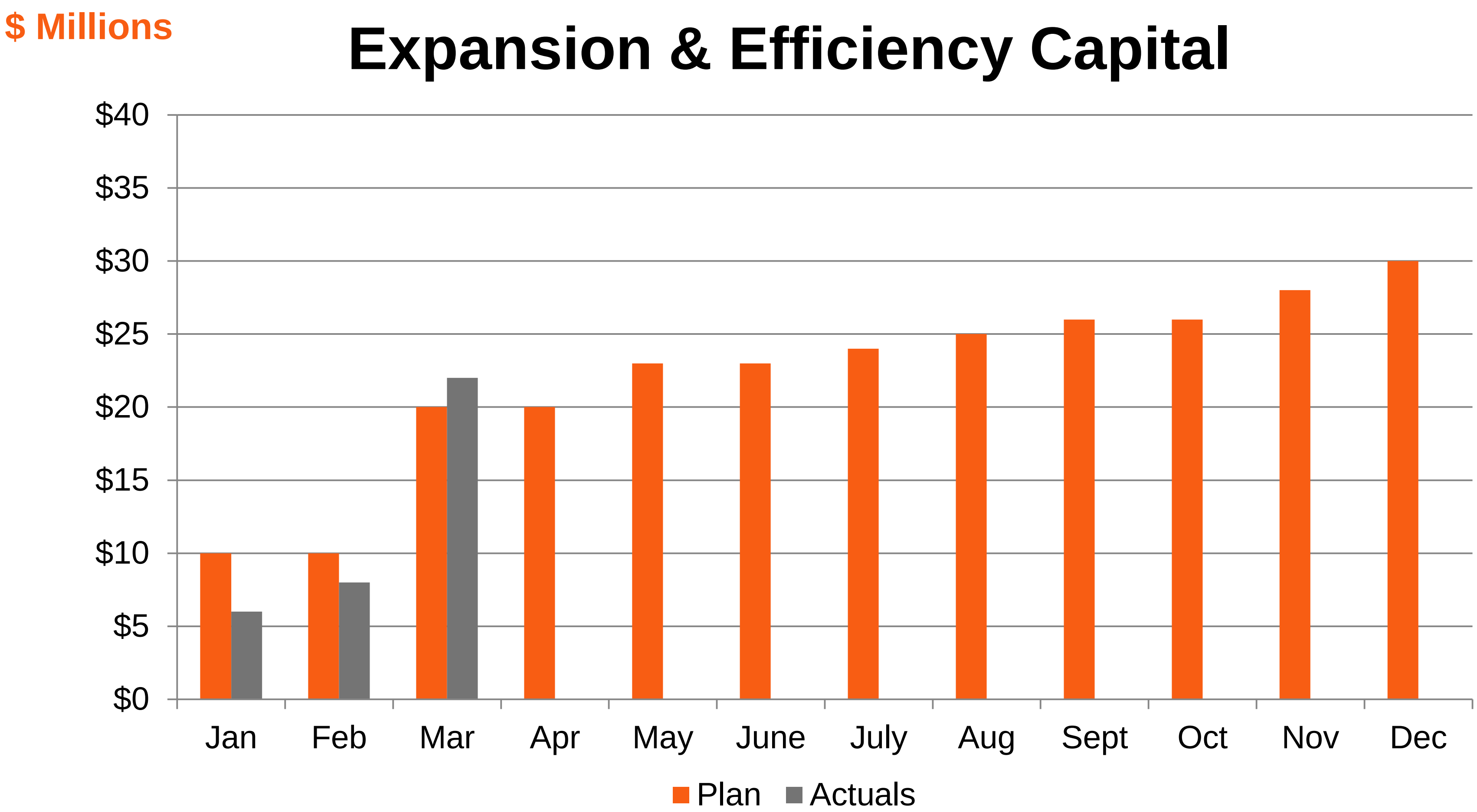
$ Millions

Replacement & Maintenance Capital



Cumulative	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Plan	$1	$2	$3	$10	$20	$40	$65	$85	$95	$110	$124	$125
Actual	$3	$7	$10									

North Dakota Capacity and Reliability



Cumulative	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Plan	$10	$20	$40	$60	$83	$106	$130	$155	$181	$207	$235	$265
Actual	$6	$14	$36									

EP 724 – U.S. Rail Service Issues

**Tom Haley, Assistant Vice President –
Network and Capital Planning**

April 10, 2014

235860

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

UNION PACIFIC BUILDING AMERICA®

Severe Weather Impacts Railroads

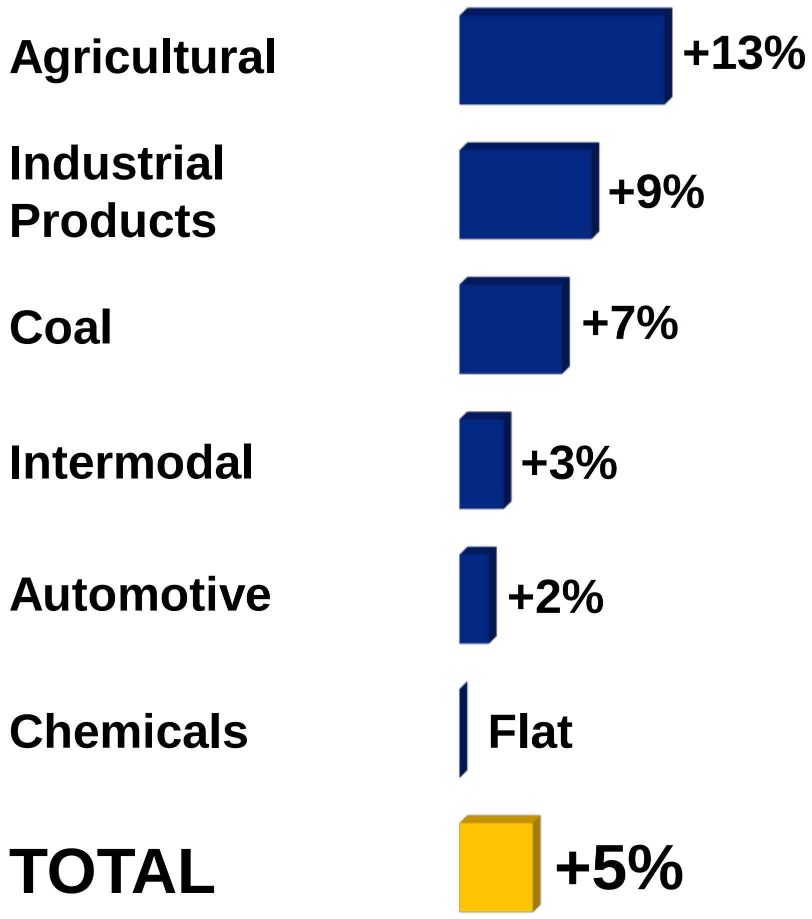
Effects on rail operation

- Reduced ground crew mobility
- Slowed productivity
- Frozen switches
- Reduced train size
- Interchange bottlenecks

Strong Demand

2014 YTD Volume Growth*

(vs 2013)

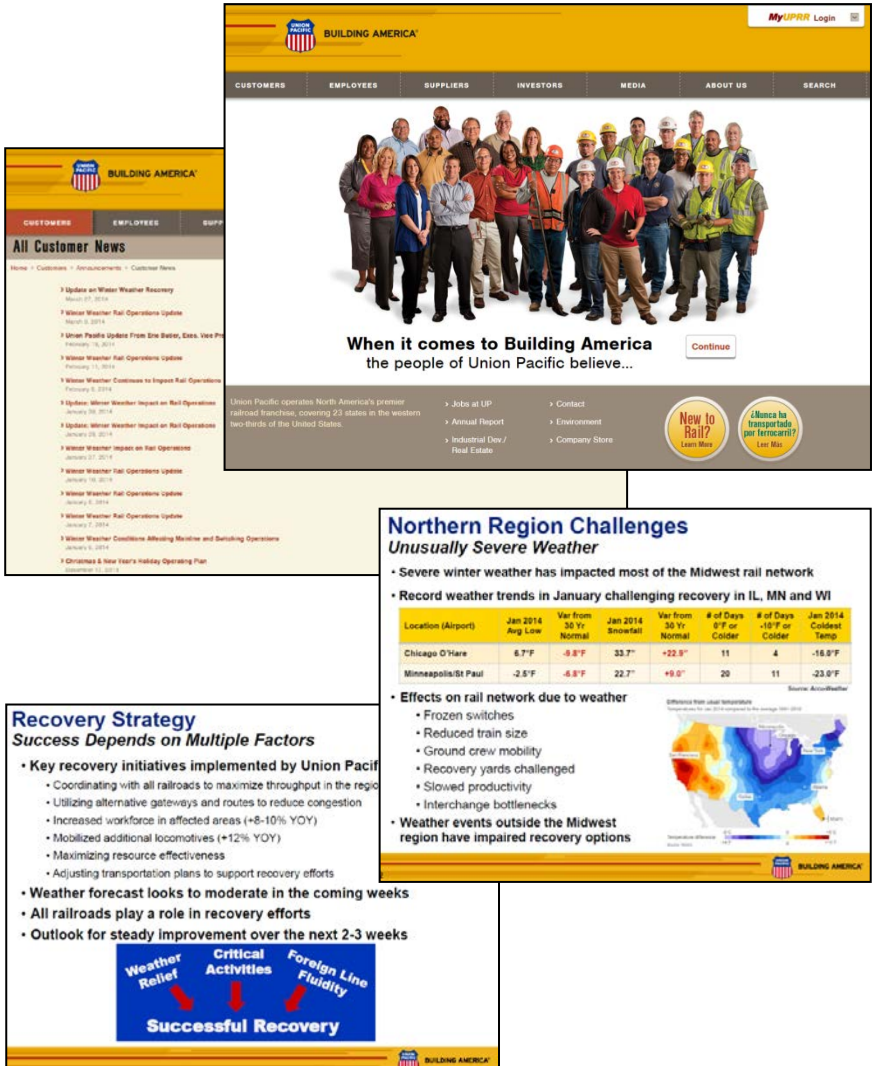


*Through April 1, 2014

YTD Drivers

- Strong Grain Shipments
- Strong Ethanol Shipments
- Growth in Frac Sand
- Coal Demand Up with Harsh Winter

UP Customer Coordination Actions



- **Communication**
  - **Regular website updates since first Polar Vortex event**
  - **Performance Quality Reviews (PQR) directly with customers**
- **National Customer Service Center**
  - **Existing disciplined service issue process**
  - **Additional staffing**
  - **Tighter coordination with field operating team, command centers, and dispatch center**
- **Hands-on cross-functional contact with customers most affected**
- **Internal communication & coordination**
- **Tremendous customer support and cooperation, including select blocking**

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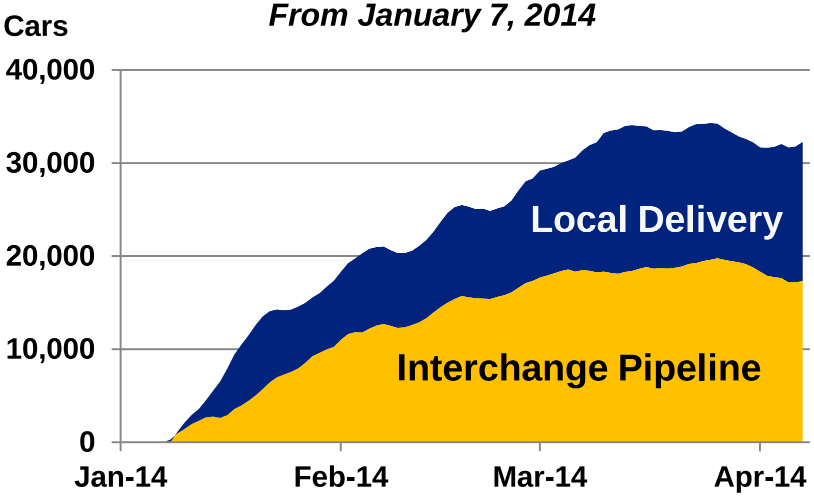
UP Operating Actions

Change in Freight Car Inventory

From January 7, 2014



Key Strategies

- Safety
- Variability Reduction
- Agility / Surge Capacity
- Innovation
- Investment

- **Reduce inventory**
  - Run the service plan
- **Run locals – spot & pull the customer**
- **Maximize resources**
  - + 550 active TE&Y Crews since Jan
  - + 600 active Locomotives since Fall to 7,480
  - + 57 Managers
  - + 11,800 Freight Cars (10,500 from storage plus 1,300 new/leased)
- **Step-up capital investment**
- **Chicago gateway actions**
- **Upper Midwest actions**

BUILDING AMERICA®

UP Chicago Actions

Employee in Sub-Zero Gear

- Resource Actions (right →)
- Coordination through CTCO
- Flex Chicago demand
  - Upstream blocking to overhead Chicago switching
  - Use of alternate gateways
- Customer communication

Resource Actions

Management

- UP Chicago Command Center
- 6 additional managers at Proviso
- Additional planning calls with interchange partners
- Extra crew drivers in Milwaukee area

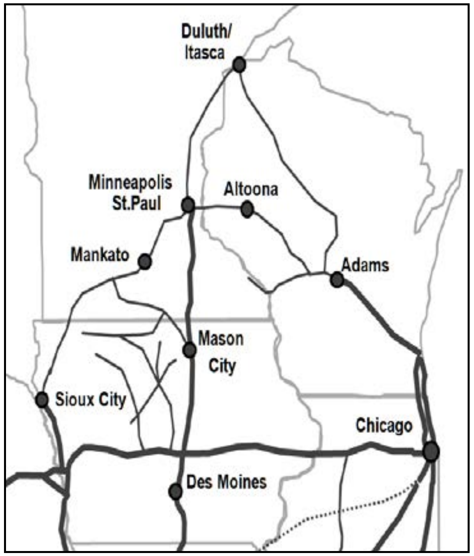
Crews

- 51 TE&Y supplements from other areas
- 42 in training pipeline by June
- Outstanding employee dedication and craft support
- Weekly employee updates on UP Online

Locomotives

- Two-thirds of 600-unit fleet increase focused in Northern Region
- Quick locomotive turns from inbound trains

UP Upper Midwest Actions



- Resource Actions (right →)
- Flex demand
  - Alternate switching in UP network
  - Use of short-line partners for switching
  - Customer blocking – Great support!
- Emphasis on restoring local service
- Customer communication

Resource Actions

Management

- UP Twin Cities Command Center
- 10 additional managers at key locations
- Customer local service supervision
- Nat'l Customer Service Center coordinator
- 8 managers accelerating crew training

Crews

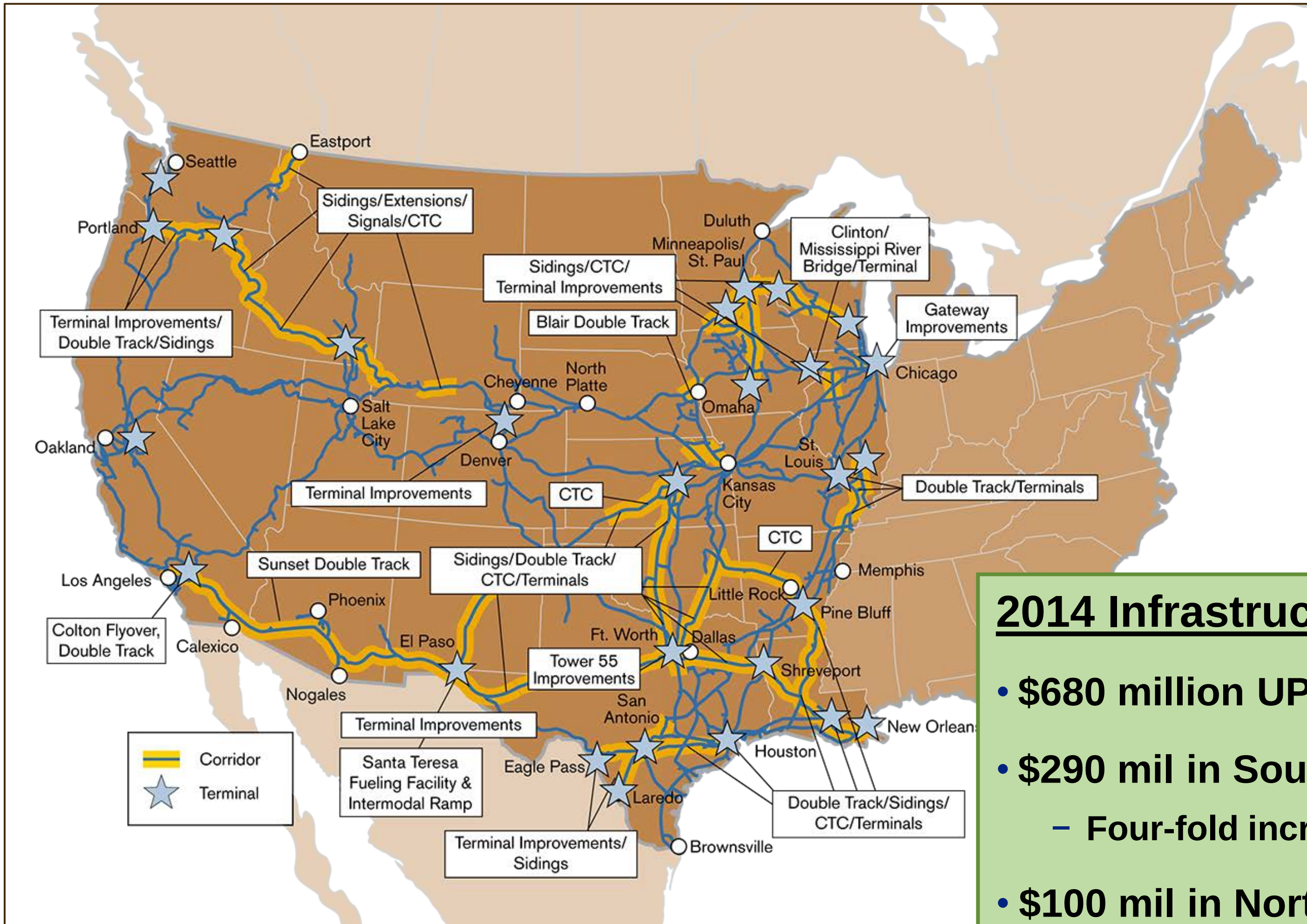
- Initiatives to improve efficient use of crews
- 43 TE&Y supplements from other areas
- 103 in training pipeline
- Outstanding employee dedication and craft support
- Weekly updates on UP Online

Locomotives

- Initiatives to increase locomotive supply
- Dedicated locomotives for local service
- Added maintenance support

UNION PACIFIC BUILDING AMERICA®

Existing and Proposed UP Capacity Projects



2014 Infrastructure Expansion

- **$680 million UP network total**
- **$290 mil in South**
  - **Four-fold increase since 2011**
- **$100 mil in North, with approval to accelerate $40 mil in upper Midwest**

UNION PACIFIC BUILDING AMERICA®

Summary

UP Actions — Implemented

- Customer communication & coordination ✓
- Employee dedication & teamwork ✓
- Resource additions ✓
  - Crews ✓
  - Locomotives ✓
  - Freight Cars ✓
  - Management ✓
- Increase production & plan compliance ✓
- Flex the operating plan / manage workload ✓
- Partner railroad coordination *Improving*
- Capital acceleration ✓

Outlook: Steady improvement

235861

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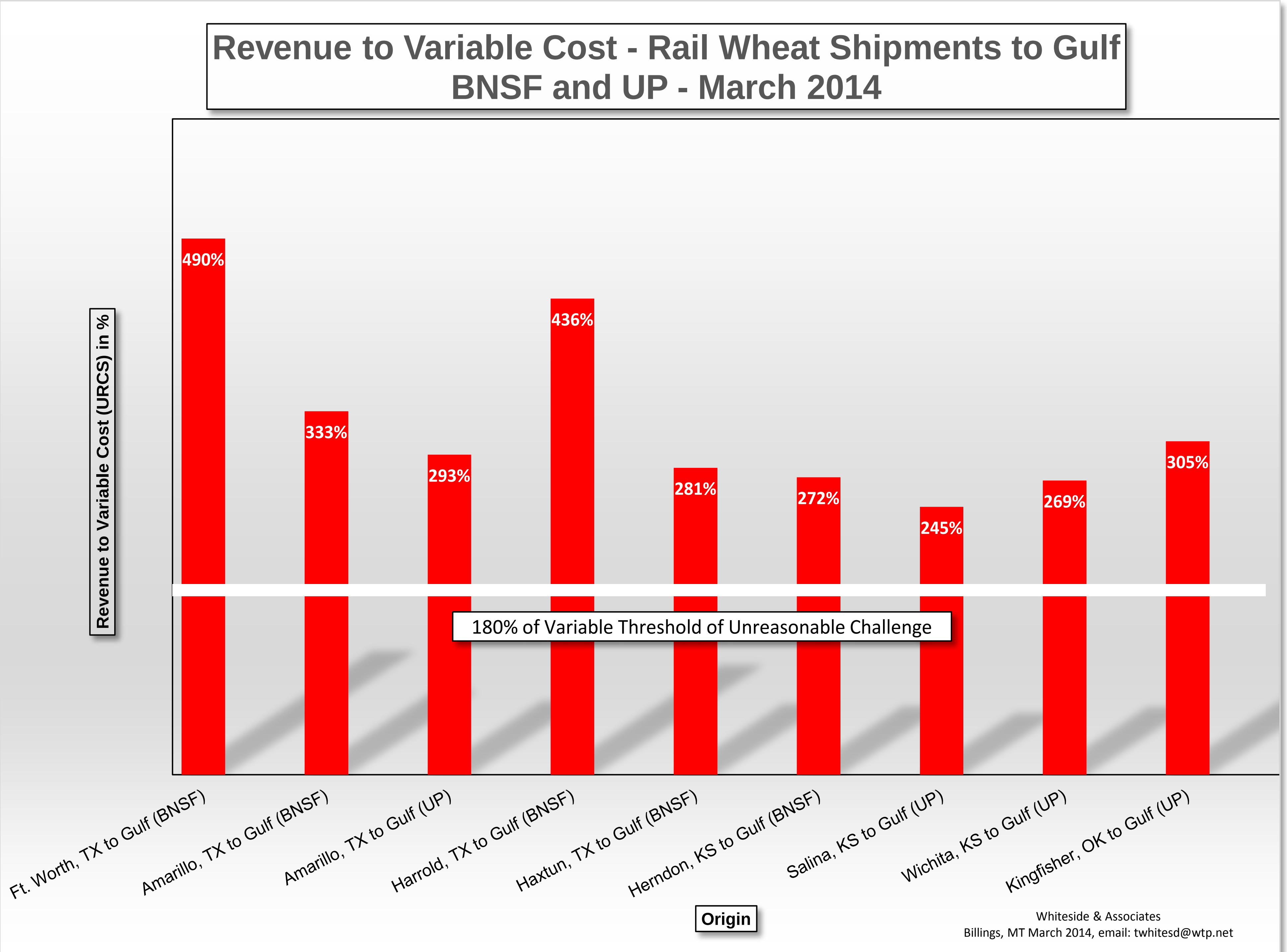
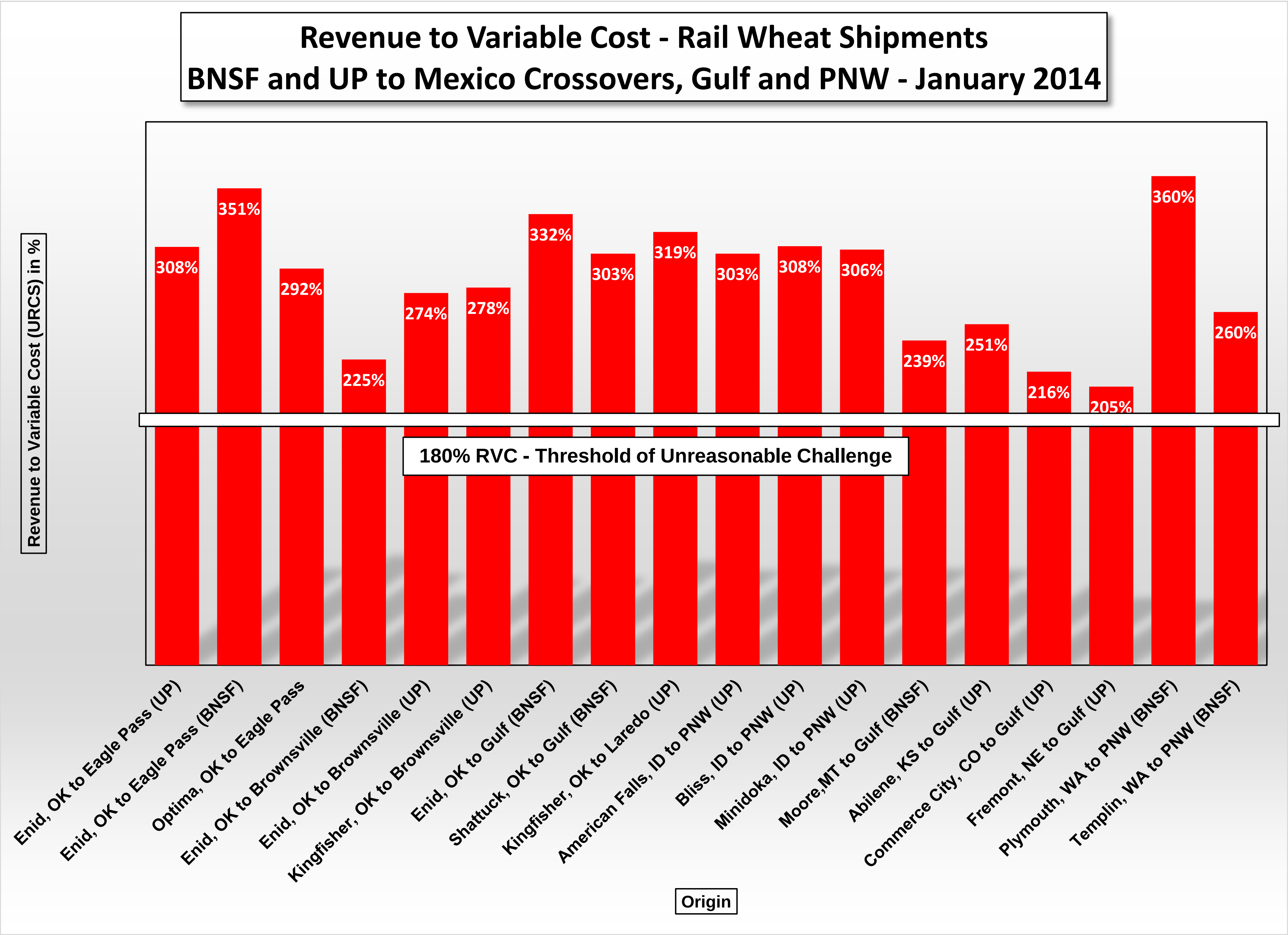
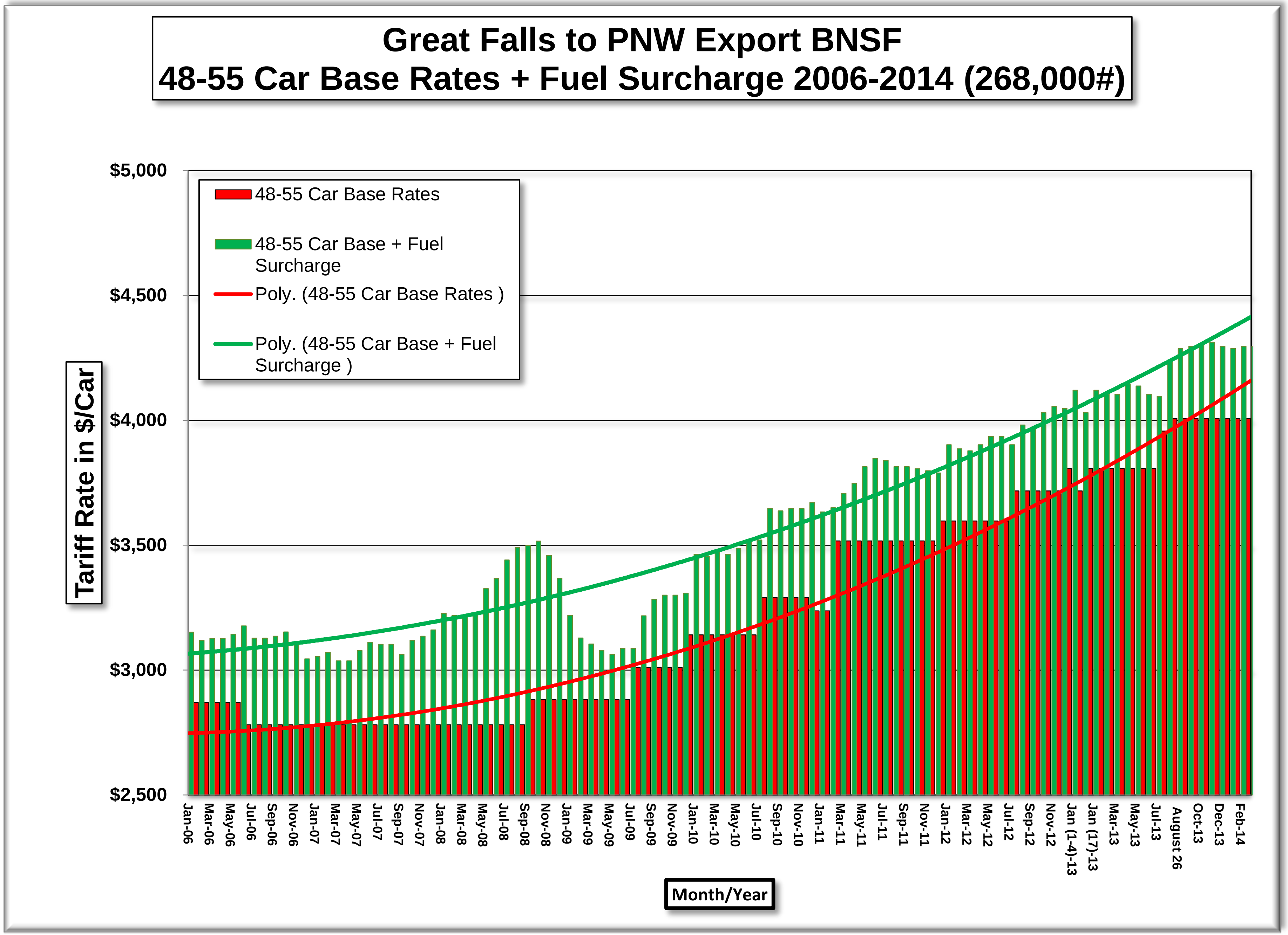
STB DOCKET NO. Ex Parte 724

UNITED STATES RAIL SERVICE ISSUES

Whiteside & Associates/Alliance for Rail Competition – Billings, Montana


Revenue to Variable Cost - Rail Wheat Shipments to Gulf
BNSF and UP - March 2014
Revenue to Variable Cost (URCS) in %
490%
333%
293%
436%
281%
272%
245%
269%
305%
180% of Variable Threshold of Unreasonable Challenge
Ft. Worth, TX to Gulf (BNSF)
Amarillo, TX to Gulf (BNSF)
Amarillo, TX to Gulf (UP)
Harrold, TX to Gulf (BNSF)
Haxtun, TX to Gulf (BNSF)
Herndon, KS to Gulf (BNSF)
Salina, KS to Gulf (UP)
Wichita, KS to Gulf (UP)
Kingfisher, OK to Gulf (UP)
Origin
Whiteside & Associates
Billings, MT March 2014, email: twhitesd@wtp.net


Revenue to Variable Cost - Rail Wheat Shipments
BNSF and UP to Mexico Crossovers, Gulf and PNW - January 2014
Revenue to Variable Cost (URCS) in %
308%
351%
292%
225%
274%
278%
332%
303%
319%
303%
308%
306%
239%
251%
216%
205%
360%
260%
180% RVC - Threshold of Unreasonable Challenge
Enid, OK to Eagle Pass (UP)
Enid, OK to Eagle Pass (BNSF)
Optima, OK to Eagle Pass
Enid, OK to Brownsville (BNSF)
Enid, OK to Brownsville (UP)
Kingfisher, OK to Brownsville (UP)
Enid, OK to Gulf (BNSF)
Shattuck, OK to Gulf (BNSF)
Kingfisher, OK to Laredo (UP)
American Falls, ID to PNW (UP)
Bliss, ID to PNW (UP)
Minidoka, ID to PNW (UP)
Moore,MT to Gulf (BNSF)
Abilene, KS to Gulf (UP)
Commerce City, CO to Gulf (UP)
Fremont, NE to Gulf (UP)
Plymouth, WA to PNW (BNSF)
Templin, WA to PNW (BNSF)
Origin


Great Falls to PNW Export BNSF
48-55 Car Base Rates + Fuel Surcharge 2006-2014 (268,000#)
48-55 Car Base Rates
48-55 Car Base + Fuel Surcharge
Poly. (48-55 Car Base Rates)
Poly. (48-55 Car Base + Fuel Surcharge)
Tariff Rate in $/Car
$5,000
$4,500
$4,000
$3,500
$3,000
$2,500
Jan-06
Mar-06
May-06
Jul-06
Sep-06
Nov-06
Jan-07
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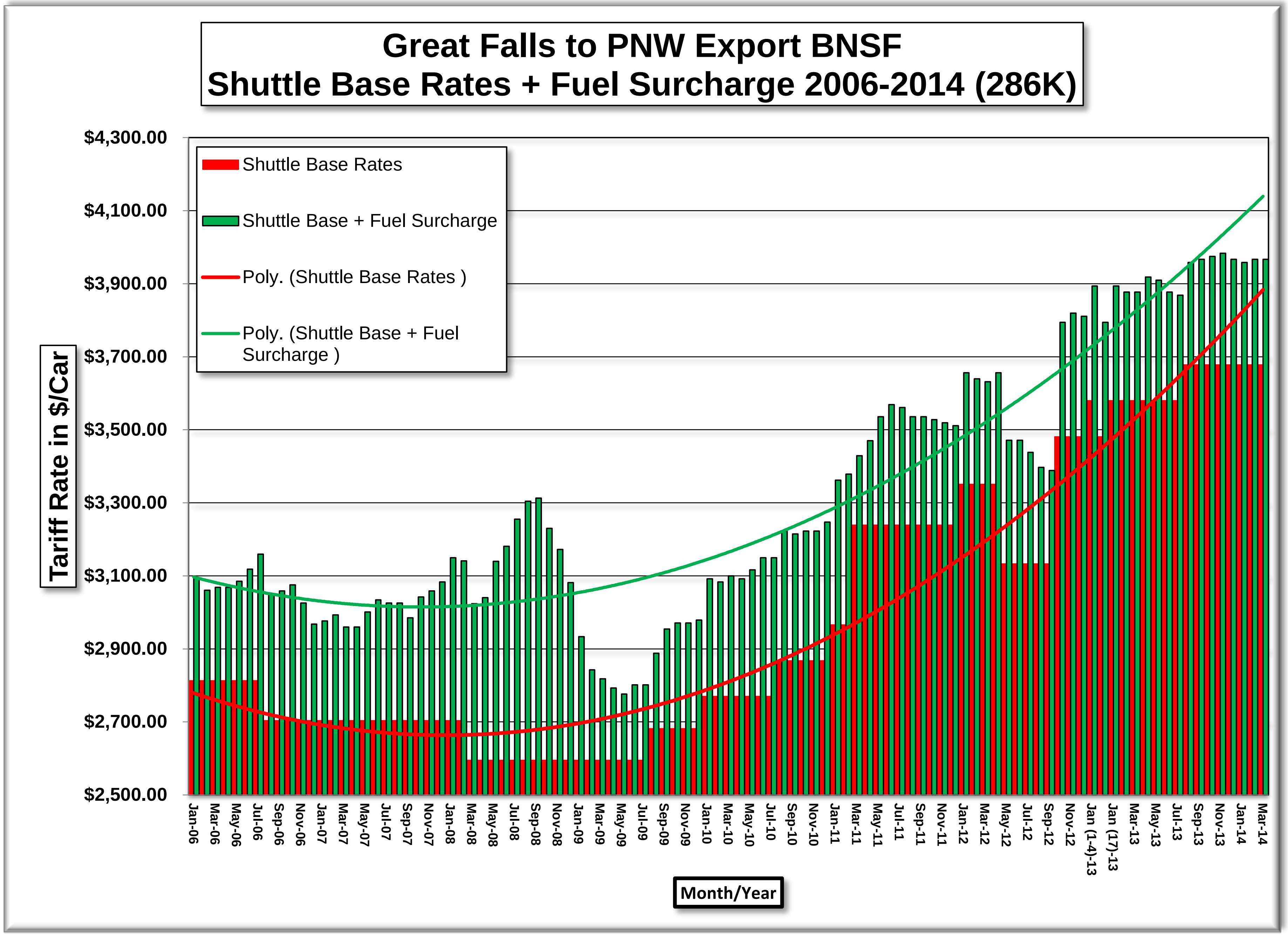
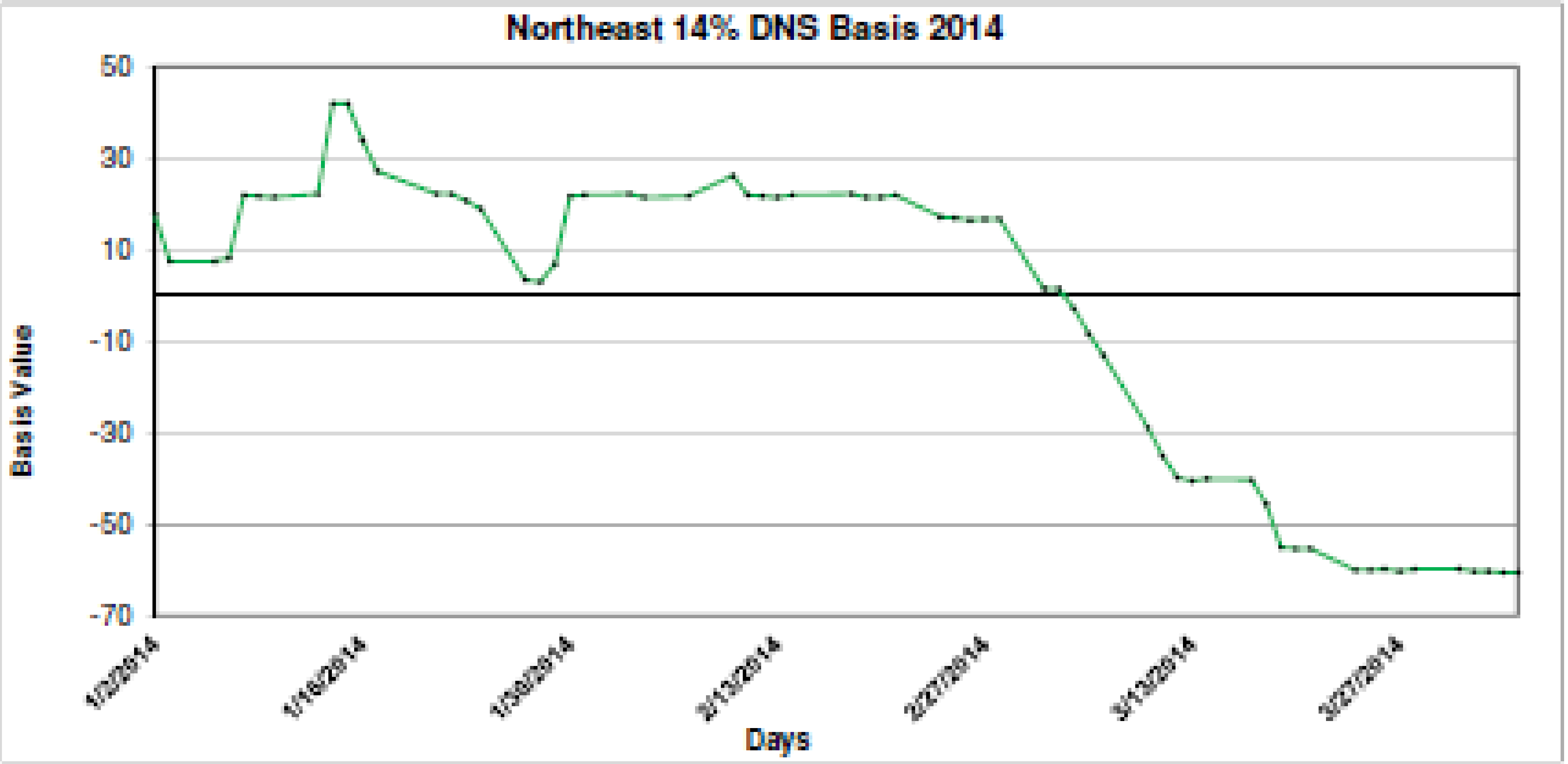
Jan-12
Mar-12
May-12
Jul-12
Sep-12
Nov-12
Jan (1-4)-13
Jan (17)-13
Mar-13
May-13
Jul-13
August 26
Oct-13
Dec-13
Feb-14
Month/Year


Great Falls to PNW Export BNSF
Shuttle Base Rates + Fuel Surcharge 2006-2014 (286K)
Shuttle Base Rates
Shuttle Base + Fuel Surcharge
Poly. (Shuttle Base Rates)
Poly. (Shuttle Base + Fuel Surcharge)
Tariff Rate in $/Car
$4,300.00
$4,100.00
$3,900.00
$3,700.00
$3,500.00
$3,300.00
$3,100.00
$2,900.00
$2,700.00
$2,500.00
Jan-06 Mar-06 May-06 Jul-06 Sep-06 Nov-06 Jan-07 Mar-07 May-07 Jul-07 Sep-07 Nov-07 Jan-08 Mar-08 May-08 Jul-08 Sep-08 Nov-08 Jan-09 Mar-09 May-09 Jul-09 Sep-09 Nov-09 Jan-10 Mar-10 May-10 Jul-10 Sep-10 Nov-10 Jan-11 Mar-11 May-11 Jul-11 Sep-11 Nov-11 Jan-12 Mar-12 May-12 Jul-12 Sep-12 Nov-12 Jan (1-4)-13 Jan (17)-13 Mar-13 May-13 Jul-13 Sep-13 Nov-13 Jan-14 Mar-14
Month/Year

BASIS ON WHEAT IN MONTANA HAS FALLEN

CONSISTENTLY DURING THIS SERVICE CRISIS



Source: Montana Wheat and Barley Committee

235862
644
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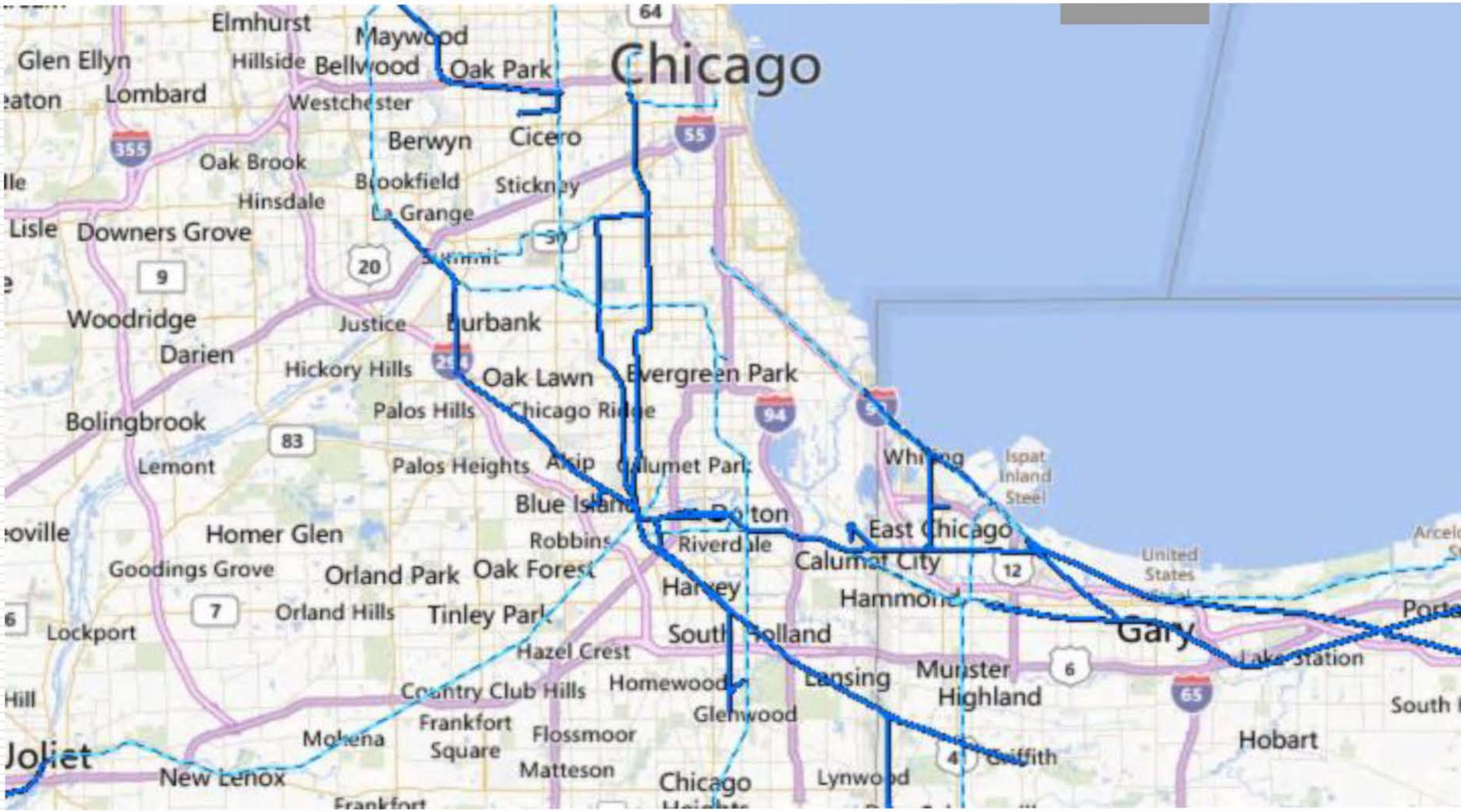
CSX
How tomorrow moves

CSX Transportation Operational Update

Cressie Brown, VP Service Design

Winter impacts were severe across CSX's network

CSX took multiple actions to enhance operations

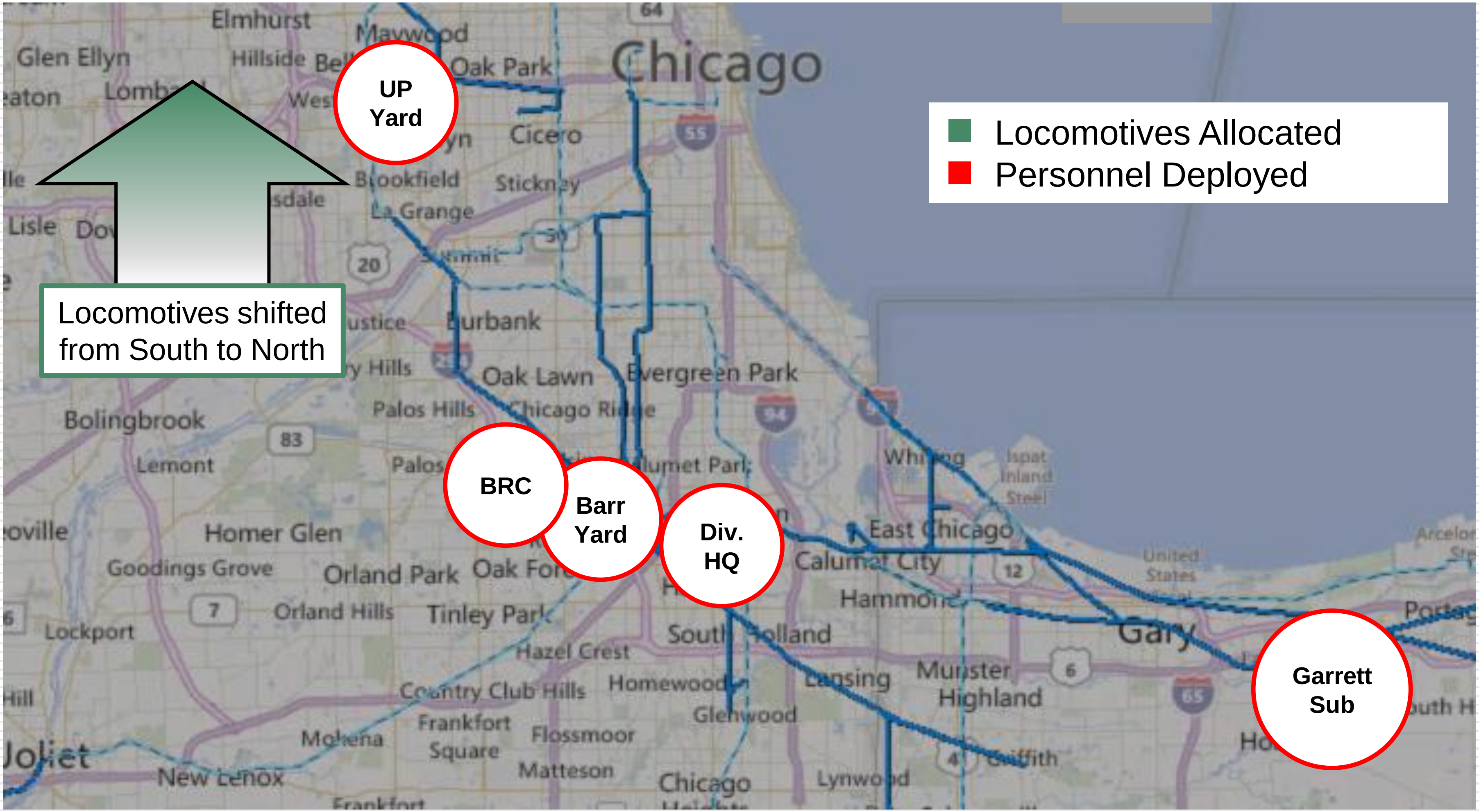


How tomorrow moves

CSX took multiple actions to enhance operations

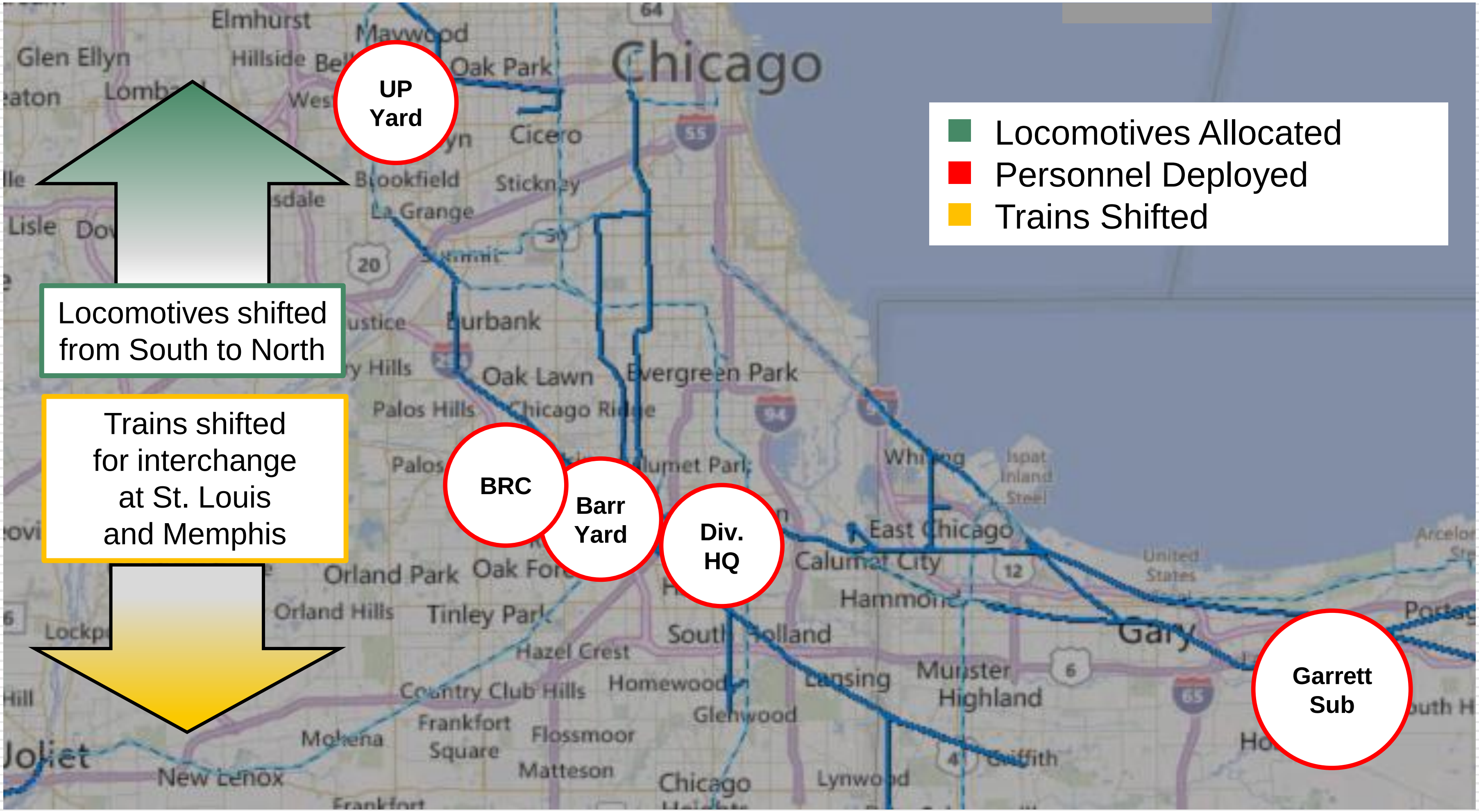
How tomorrow moves

CSX took multiple actions to enhance operations



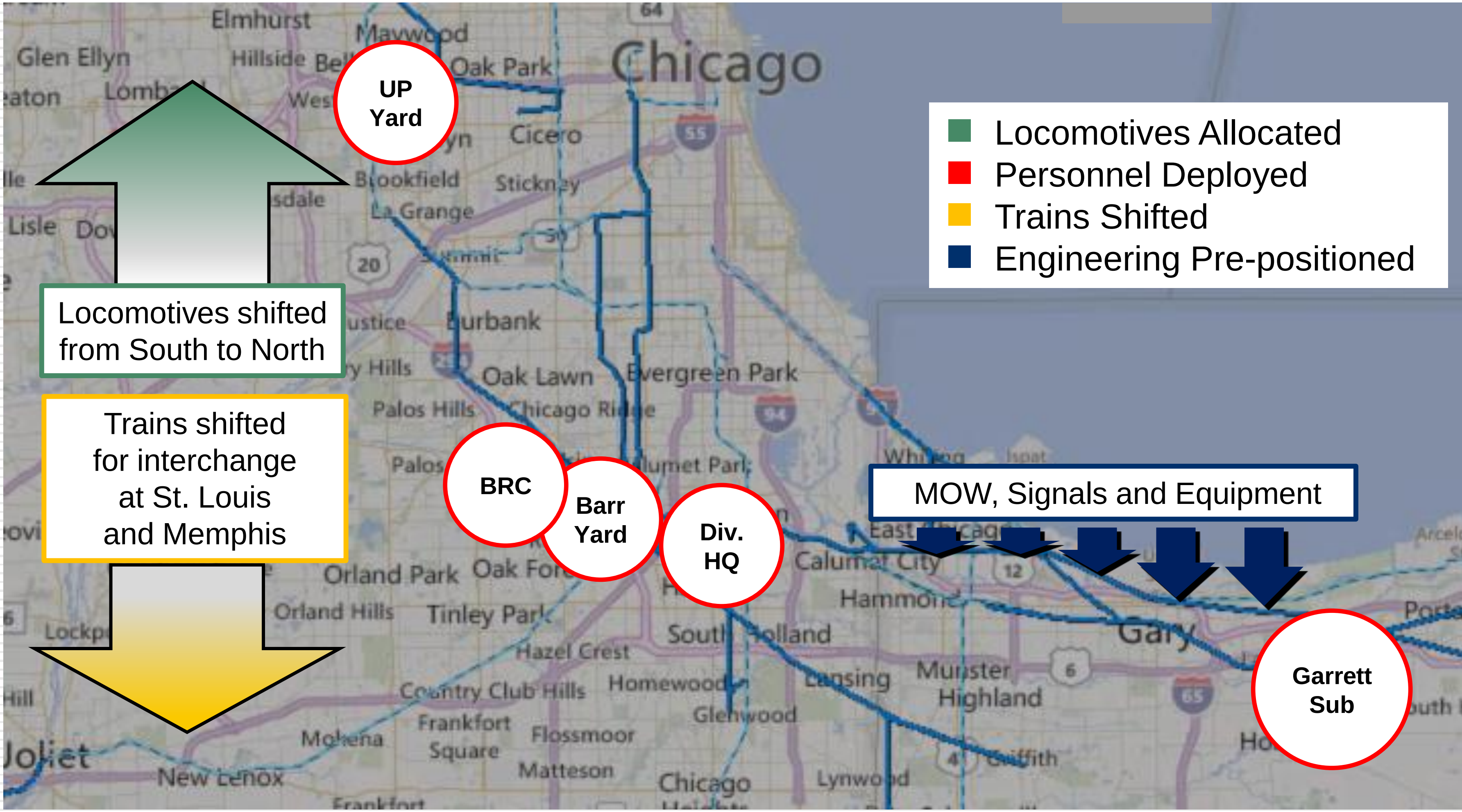
How tomorrow moves

CSX took multiple actions to enhance operations



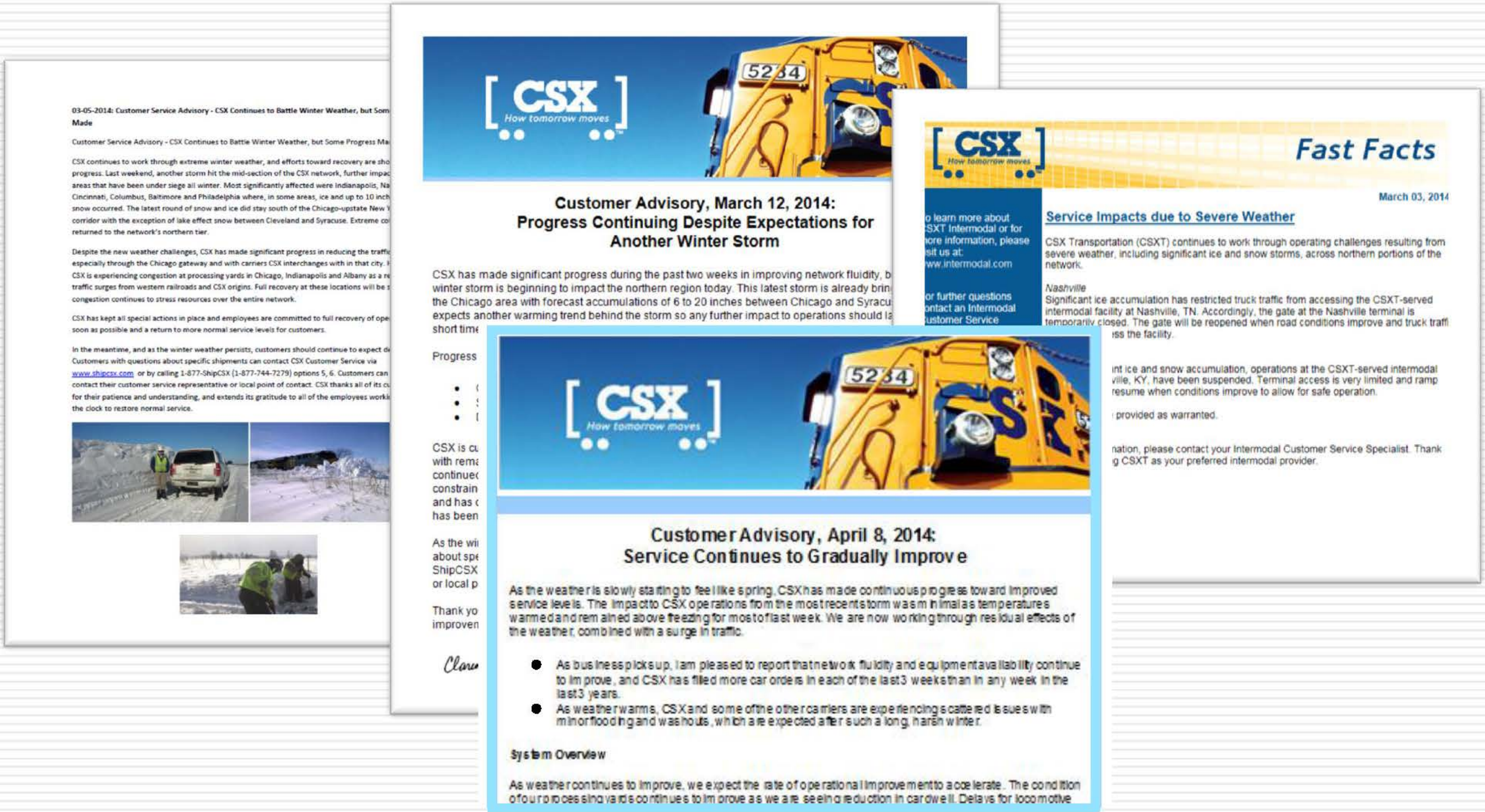
How tomorrow moves

CSX took multiple actions to enhance operations



How tomorrow moves

Proactive CSX customer communications



03-05-2014: Customer Service Advisory - CSX Continues to Battle Winter Weather, but Som
Made

Customer Service Advisory - CSX Continues to Battle Winter Weather, but Some Progress Ma

CSX continues to work through extreme winter weather, and efforts toward recovery are sho
progress. Last weekend, another storm hit the mid-section of the CSX network, further impac
areas that have been under siege all winter. Most significantly affected were Indianapolis, Na
Cincinnati, Columbus, Baltimore and Philadelphia where, in some areas, ice and up to 10 inch
snow occurred. The latest round of snow and ice did stay south of the Chicago-upstate New Y
corridor with the exception of lake effect snow between Cleveland and Syracuse. Extreme co
returned to the network's northern tier.

Despite the new weather challenges, CSX has made significant progress in reducing the traffic
especially through the Chicago gateway and with carriers CSX interchanges with in that city. H
CSX is experiencing congestion at processing yards in Chicago, Indianapolis and Albany as a re
traffic surges from western railroads and CSX origins. Full recovery at these locations will be s
congestion continues to stress resources over the entire network.

CSX has kept all special actions in place and employees are committed to full recovery of ope
soon as possible and a return to more normal service levels for customers.

In the meantime, and as the winter weather persists, customers should continue to expect de
Customers with questions about specific shipments can contact CSX Customer Service via
www.shipcsx.com or by calling 1-877-ShipCSX (1-877-744-7279) options 5, 6. Customers can
contact their customer service representative or local point of contact. CSX thanks all of its cu
for their patience and understanding, and extends its gratitude to all of the employees worki
the clock to restore normal service.

CSX How tomorrow moves

Customer Advisory, March 12, 2014:
Progress Continuing Despite Expectations for Another Winter Storm

CSX has made significant progress during the past two weeks in improving network fluidity, b
winter storm is beginning to impact the northern region today. This latest storm is already brin
the Chicago area with forecast accumulations of 6 to 20 inches between Chicago and Syracu
expects another warming trend behind the storm so any further impact to operations should la
short time

Progress

CSX is cu
with rema
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As the wi
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improven

CSX How tomorrow moves

Fast Facts

March 03, 2014

o learn more about
SXT Intermodal or for
ore information, please
sit us at:
ww.intermodal.com

or further questions
ontact an Intermodal
ustomer Service

Service Impacts due to Severe Weather

CSX Transportation (CSXT) continues to work through operating challenges resulting from severe weather, including significant ice and snow storms, across northern portions of the network.

Nashville
Significant ice accumulation has restricted truck traffic from accessing the CSXT-served intermodal facility at Nashville, TN. Accordingly, the gate at the Nashville terminal is temporarily closed. The gate will be reopened when road conditions improve and truck traffi
ss the facility.

nt ice and snow accumulation, operations at the CSXT-served intermodal
ville, KY, have been suspended. Terminal access is very limited and ramp
resume when conditions improve to allow for safe operation.

provided as warranted.

nation, please contact your Intermodal Customer Service Specialist. Thank
g CSXT as your preferred intermodal provider.

CSX How tomorrow moves

Customer Advisory, April 8, 2014:
Service Continues to Gradually Improve

As the weather is slowly starting to feel like spring, CSX has made continuous progress toward improved service levels. The impact to CSX operations from the most recent storm was minimal as temperatures warmed and remained above freezing for most of last week. We are now working through residual effects of the weather, combined with a surge in traffic.

- As business picks up, I am pleased to report that network fluidity and equipment availability continue to improve, and CSX has filled more car orders in each of the last 3 weeks than in any week in the last 3 years.
- As weather warms, CSX and some of the other carriers are experiencing scattered issues with minor flooding and washouts, which are expected after such a long, harsh winter.

System Overview

As weather continues to improve, we expect the rate of operational improvement to accelerate. The condition of our processing yards continues to improve as we are seeing reduction in car dwell. Delays for locomotive

How tomorrow moves CSX

Individual Customer Communication Tools

ShipCSX
1.877.SHIPCSX

Notice Number: ET282346001

Cars with ETA Changes

Rail Car:	NAHX 896269
New ETA:	04/30/2013 10:15
Previous Reported ETA:	04/29/2013 10:15
Original ETA:	04/30/2013 10:15
ETA Type:	PLANNED ARRIVAL AT SERVING YARD
Load/Empty Status:	LOAD
Current Location of Equipment:	AVON, IN
Pick Up Party:	
Shipper:	
Shipment Origin:	MANSFIELD, TX
Care of Party:	TRANSFLO TERMINAL SERVI
Consignee:	
Shipment Destination:	COLUMBUS, OH
Waybill:	216644

ETA Change History for: NAHX 896269

Location	Change Date	Updated ETA	Updated ETA Type
SALEM, IL	04/28/2013 12:32	05/01/2013 10:15	PLANNED ARRIVAL AT SER YARD
SALEM, IL	04/28/2013 13:47	04/29/2013 10:15	PLANNED ARRIVAL AT SER... YARD

OBRS v2.9.0 Train: A76509 WO: 651498 Origin: S 679 Employee: 333333 IP: 10.86.88.245 21:05

CSX | Start | Depart | Work | Train | AEI | Switch | Mail | New | Power | Busy | Log Off | Help

Departure
- Equipment
- Origin Pickup
- Customer ETA
- Depart

Estimated Arrival to Customer

Customer	Estimated Arrival
ASG709 1701	05/09/2013 21:00:00
ARB730 1711	05/09/2013 23:45:00
ASG716 1631	05/10/2013 01:00:00

How tomorrow moves CSX

Work Order Exception Notice
WE1721001

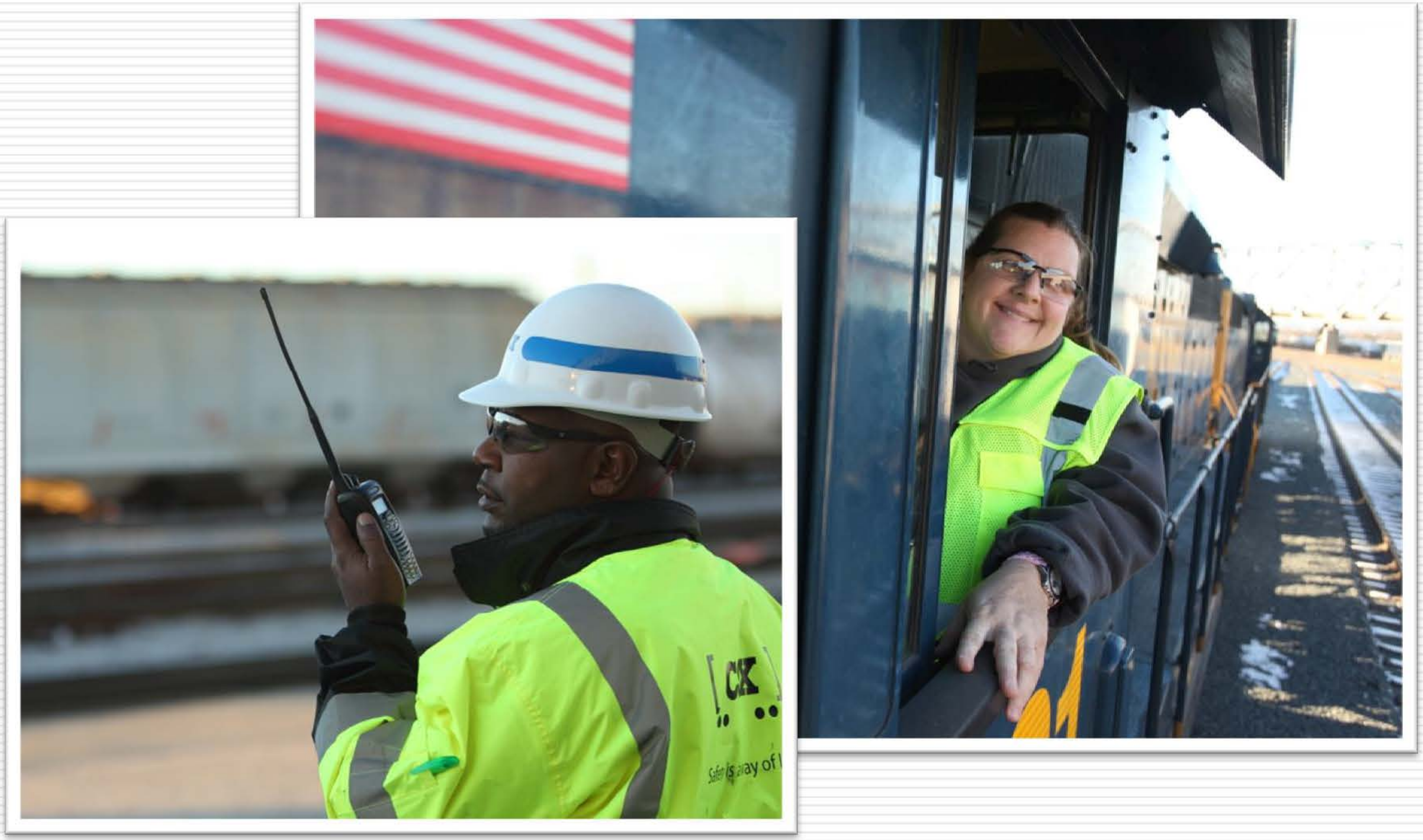
WO# 185851 Issued: 2011-06-17 10:07

NOTE: The following cars DO NOT require a new plant switch request to be submitted.

Equipment	LE	STCC	PS Request	Instruction	Exception	Reason	Date / Time	Comment
WLPX 258016	E	2821142	PS556387	Pull From Industry	Instruction Not Performed	Loading or Unloading Not Complete	2011-06-17 20:59	Our train crew reports they were unable to pull this car due to the loading or unloading not being completed. The release date on the car will be adjusted and the requested pull of this car will be rescheduled to your next service date.

If you feel that this reporting was in error, please contact CSX Customer Service via the web by using our Shipment Problem Resolution tool located under the 'Resources' or 'Trace' tabs at www.ShipCSX.com or via phone at 1-877-ShipCSX, prompts 5,6.

People make the difference



- Train speeds were ~12% slower than normal in late February
- Dwell times jumped 40% in late December and remained ~25% above normal through first quarter

Average Train Speed and Dwell Time, All Class I Railroads

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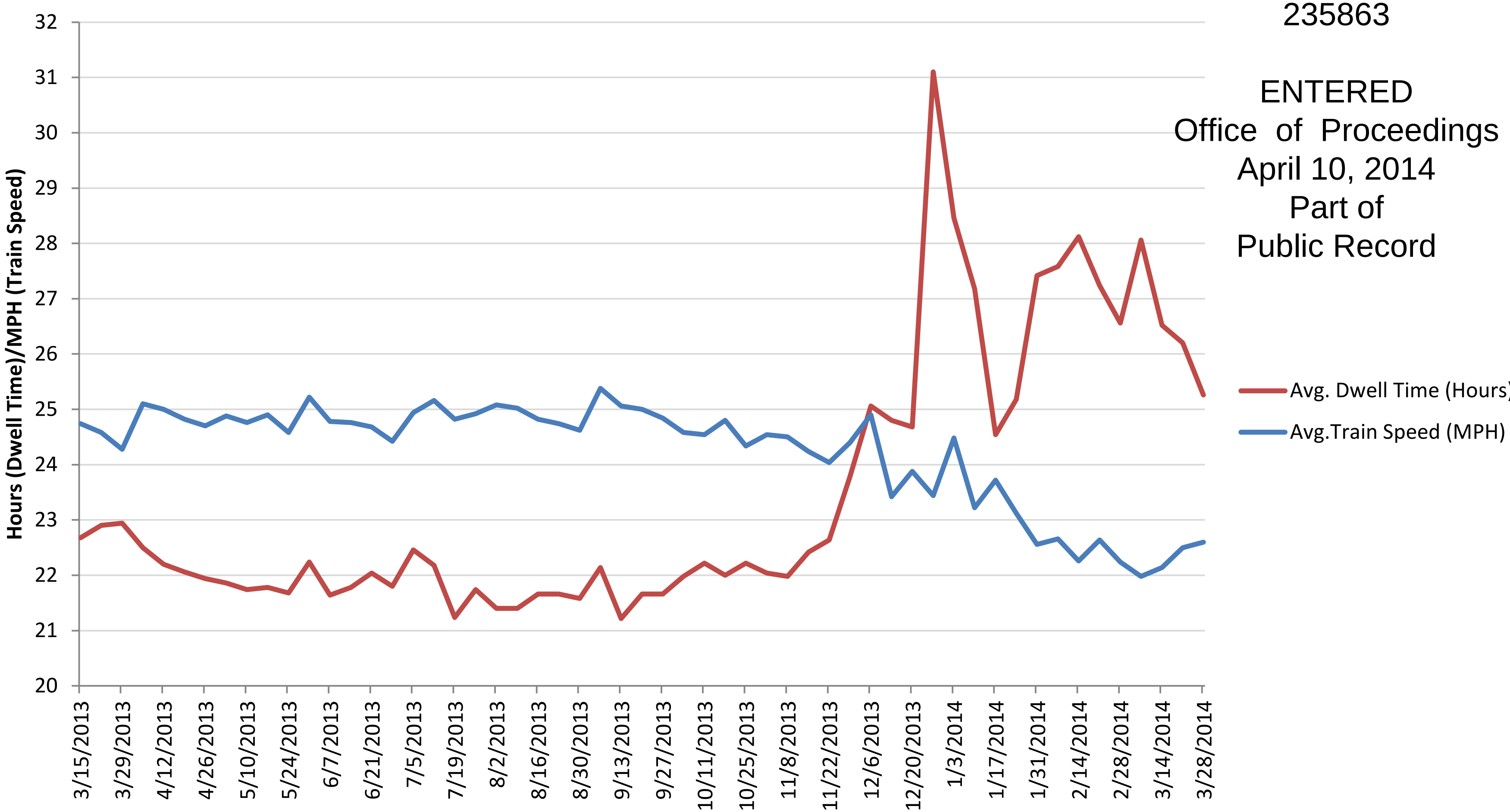
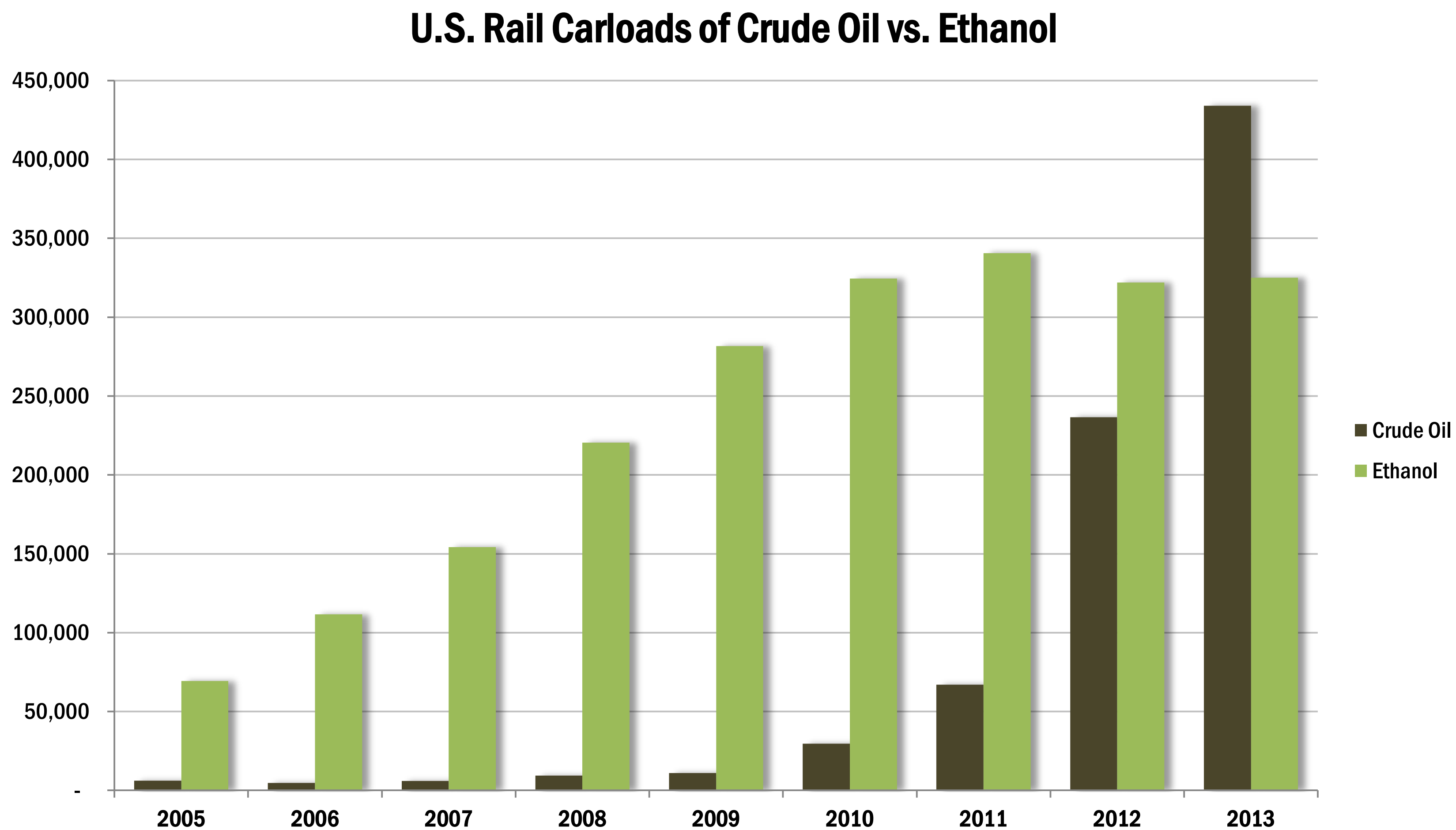


Source: AAR

- Rail shipments of ethanol have stabilized over past four years
- Shipments of crude oil have increased 1363% since 2010



Source: AAR

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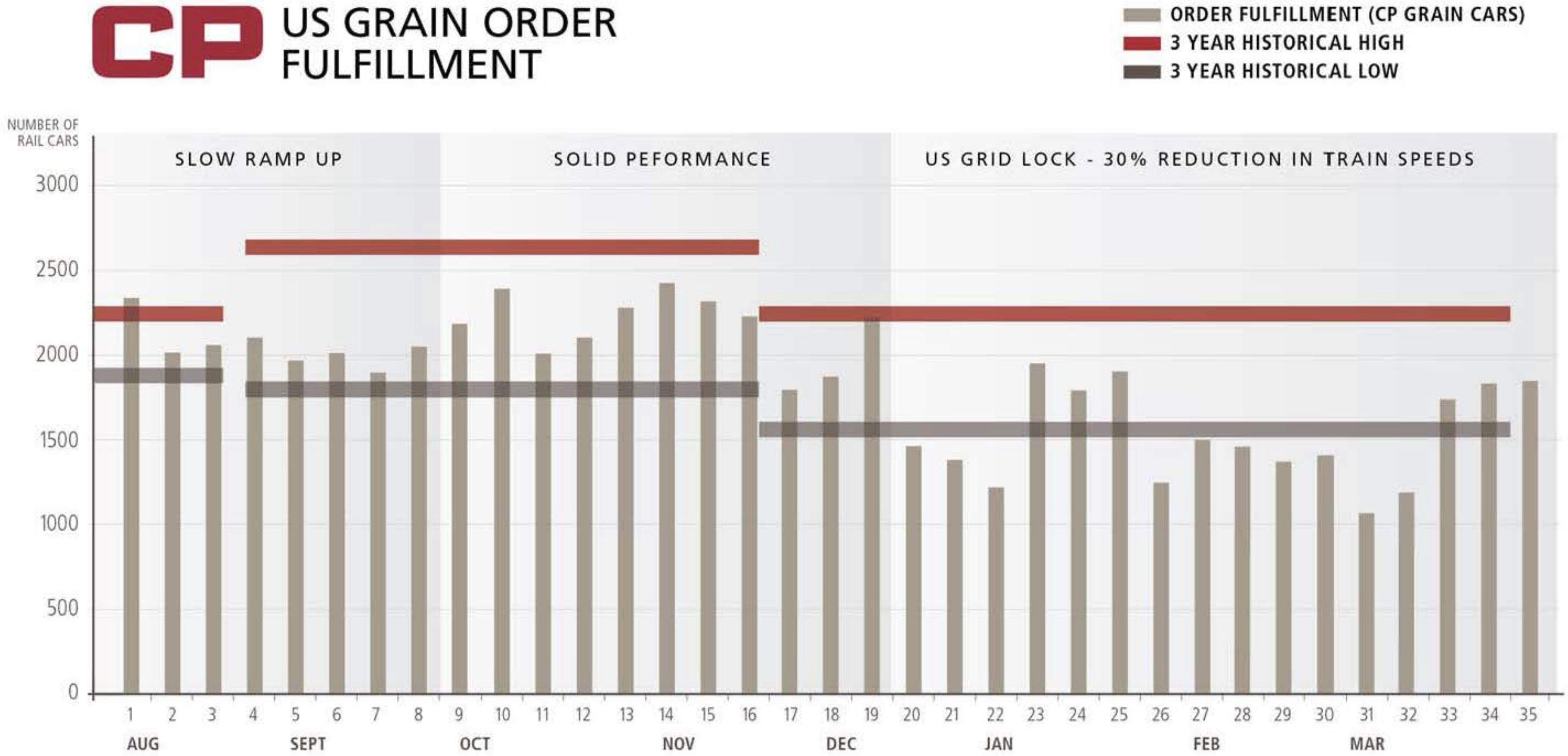
US GRAIN ORDER FULFILLMENT



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UNITED SUGARS™
CORPORATION

Food Processors served by United Sugars

UNITED SUGARS CORPORATION

Nestlé

HERSHEY'S Milk Chocolate

PEPSICO

Pepsi, Frito-Lay, Tropicana, Quaker, Gatorade

RICH'S

Cass-Clay

Kellogg's

General Mills

McKee

Schwan's

Hormel

Kraft

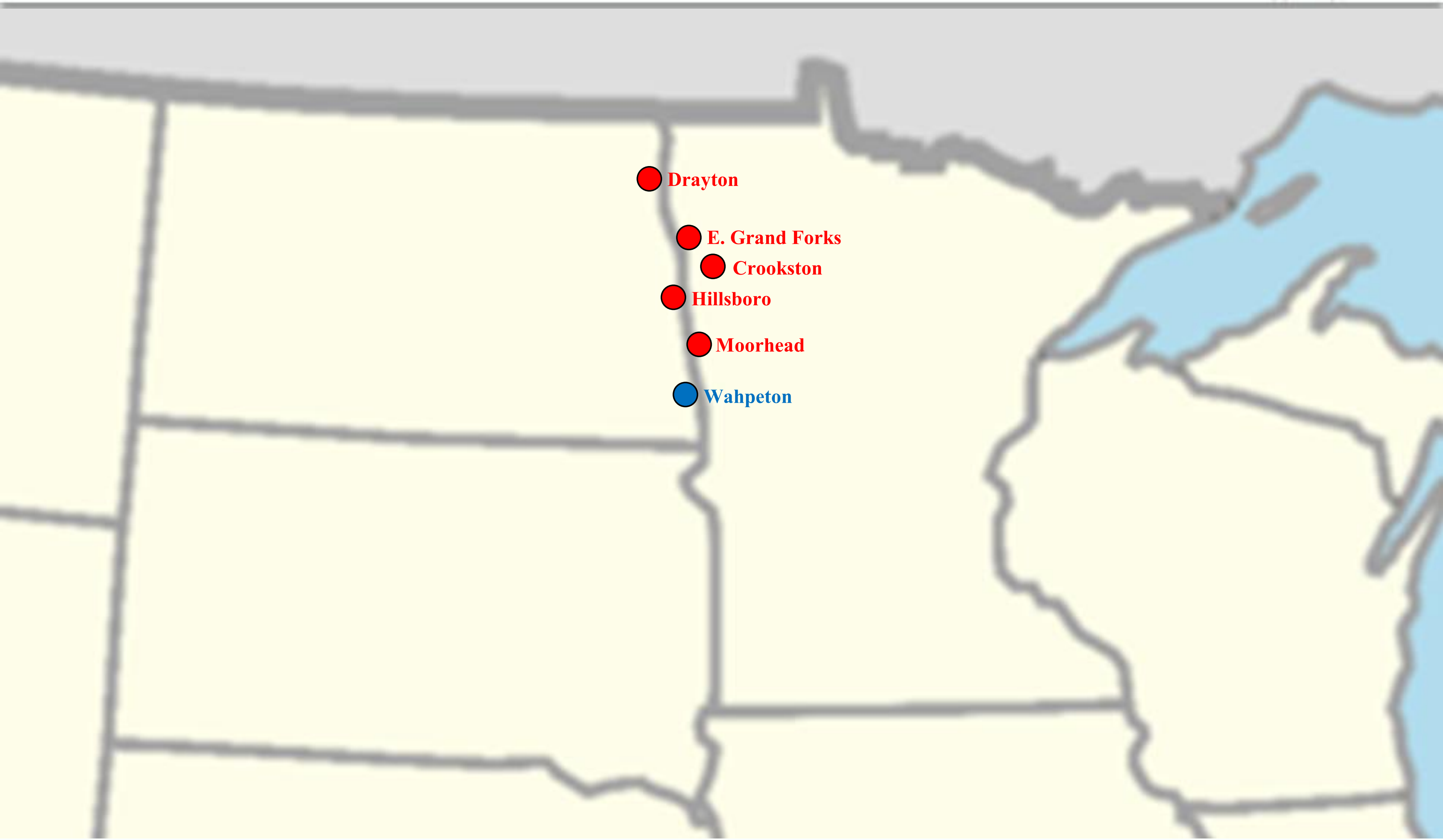
KEMPS QUALITY SINCE 1914

BLUE BUNNY QUALITY Wells SINCE 1913

Mars

Sugar plants in the Red River Valley served exclusively by the BNSF

United Sugars Corporation



Sugar beets

Piling of sugar beets prior to processing

Sugar beet factory

UNITED SUGARS™ CORPORATION

UNITED SUGARS™
CORPORATION

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Ex Parte No. 724

UNITED STATES RAIL SERVICE ISSUES

VERIFIED STATEMENT

of

Kei Rietz

April 10, 2014

Ex Parte No. 724

UNITED STATES RAIL SERVICE ISSUES

VERIFIED STATEMENT

of

Kei Rietz

Verified Statement of Kei Rietz

I am Kei Rietz, Commercial Manager at Northern Tier Energy LP, an independent downstream energy company with refining, retail and pipeline operations that serve the PADD II region of the United States. Northern Tier Energy's refining business primarily consists of an mid-sized, oil refinery in Saint Paul Park, Minnesota

I am joined here today by Jason Akey, who has served as Commercial Operations Manager the last three years.

I am also joined by Charles H, Banks, President of R.L. Banks & Associates, Inc., an independent railroad consulting firm, headquartered in Arlington, Virginia

My testimony is organized into six parts:

1) Background on the St. Paul Park Refinery

2) How CP historically served the Refinery;

3) How the CP, the only rail carrier which enjoys access to the Refinery, has changed the conduct of its switching operations

4) How recent changes in CP's level of switching operations has affected the Refinery adversely;

5) How recent changes in CP's level of switching operations impacts our local community adversely and

6) What Northern Tier Energy, seeks from the STB as a result from as a result of those impacts, caused by railroad management decisions outside of any rail customer's control but not beyond your authority.

Part One: Background on the St. Paul Park Refinery

The St. Paul Park Refinery is one of only two refineries in Minnesota and one of four refineries in the Upper Great Plains. The Refinery's strategic location allows it direct access to abundant supplies of North American crude oils, which we believe saves our customers money on the fuels, such as gasoline and diesel, that they buy.

In addition to various physical logistic assets, Northern Tier Energy also operates 163 convenience stores and supports 73 franchised stores. SPPR supplies most of the gasoline and diesel sold at these stations.

Part Two: How CP historically served the Saint Paul Park Refinery

CP is supposed to provide switching services, once a day, seven days a week from its St. Paul Yard facility, depicted as number 1 (one) on the map which accompanies my testimony, to the Refinery, depicted as number 2 (two) on that map. The distance between the CP yard and the Refinery is only eight miles down an industrial lead which directly accesses CP's yard without crossing any other rail line, so rail access has been convenient and efficient for both parties. *(If you'd like to know more about the geographic and logistical details of this map or regarding CP's St Paul operations please ask me at the end of my testimony)*

A recently instituted CP policy requires the CP crew to return to Saint Paul Yard after 8 hours regardless of what switching work remains to be done on the line, despite the fact that federal regulations allow crews to work up to twelve hours at a time.

The Refinery's ability to maintain stable production levels is dependent on steady, predictable deliveries from CP.

Part Three: How CP, the only rail carrier which enjoys access to the Saint Paul Park Refinery, has changed the conduct of its switching operations

Beginning in late 2013, CP's switching steadily declined from seven days a week to a sporadic and irregular event to an average of almost six failures a week over that ten week span.

The accompanying calendars provide a graphic demonstration of the extent of CP service failures in the last three months. A failure being defined as a missed switch or a failure to pick up & deliver specifically ordered cars. *A red "X" denotes a day on which CP's Saint Paul*

Transfer failed to arrive at the Refinery at any time. A black "S" denotes an instance when an ordered car essential to maintaining planned production was not delivered to the Refinery on time. In March, only nine days transpired without service failure. It goes without saying that such wildly unpredictable and unreliable service greatly complicates operations, production and production cost at SPPR.

Perhaps the most frustrating aspect of the recent degradation of CP's switching is breakdown in communications. Of the 57 service failures recorded by SPPR and reported to CP via email between January 28th and the 7th of this month, 27 elicited no response whatsoever. Eleven of those 27 failures were missed switch movements at the Refinery. What limited responses SPPR did receive were often vague or not factual in nature, blaming crew shortages or contradicted reports from CP's interchange partners. The simple fact is, we can no longer trust CP to deliver carloads on time, or to produce realistic solutions to past service failures. *(I've focused this on the changes to their level of service, but we have also experienced severe changes in some of the rates we pay to conduct our normal operations, if you'd like more details on this change please ask me following my statement)*

Part Four: How recent changes in CP's level of switching operations has affected the Refinery adversely

There are several by-products of the refining process which require ratable and regular rail service. Without reliable service the refinery is faced with a variety of uneconomical choices, all of which hurt the fuels supply to the local community and cost the refinery in lost revenues. In recent months, service failures have resulted in a total approximate loss in revenues of $1.3 million dollars, approximately 110,000 barrels in lost fuel production or approx. 225,500 full tanks of gas in the MN area and forced the refinery to make further uneconomic operational changes to avoid a total shut down. *(For the sake of time, I've avoided going into technical detail regarding the specific products affected and their subsequent impact on revenues and operations, however if you'd like more detail please do ask me following my testimony)*

Part Five: How that change in CP's service levels impacts our local community adversely

Since the products I just mentioned may not be familiar to everyone, I would like to take a moment to highlight some of the ways in which our Refinery is tied to the local community and market within which it operates. SPPR's primary focus is taking crude oil and refining it into gasoline, used in our cars, and diesel fuel, which is used to fuel trucks, buses, locomotive engines (including CP's in the Twin Cities) and farming equipment. SPPR also produces jet fuel which supplies all the major carriers at the Minneapolis St Paul Airport. Some of the less obvious byproducts of the SPPR refinery are: 1) asphalt, which is used in road repairs and construction in not only throughout Minnesota and all over the country; 2) propane, used in heating your home, your outdoor grill and also its main use in the fall, drying the crops; 3) sulfur, used mainly in fertilizers market and 4) some liquid petroleum gases I mentioned, such as butane and propylene, which are sold into the chemicals market where they are used in a variety of things, especially including plastics. So not only does the Refinery provide fuels to the local market and support hundreds of retail gas stations but we are also tied closely to a number of other industries.

Part Six: What my employer, Northern Tier Energy, seeks from the STB

SPPR recognizes there are infrastructural challenges we will never overcome, our refinery is not changing locations nor has a new refinery has been built in the United States in at least four decades.
Because of the aforementioned recognition, SPRR has gone to great lengths to make rail a viable transport option:

- SPRR leases a larger tank car fleet than it needs to ensure that it has enough empty cars and loaded, inbound freight to protect against the risk of needing to reduce or shutdown production;

- SPRR leases 100 freight car lengths of space in two, different rail yards at some distance from the Refinery to provide additional "equipment insurance" against shutting down or reducing production levels;

- SPRR pays CP to move cars to and from those yards at rates which have more than doubled in all cases since January 2011 and

- SPRR pays a third party contactor to provide switching within the facility to compensate for the switching that CP used to provide.

SPRR has tried other initiatives, only to be rebuffed by CP and BNSF.

I also recognize that SPRR is not a large customer from a railroad perspective but neither is it a small one. I believe SPRR is the largest of several rail customers on the industrial lead from which it is served. The Refinery operates 24/7/365 and certainly generates enough inbound and outbound traffic to contribute somewhat, if not handsomely, to a serving railroad's bottom line, even one whose limited reach into the markets that supply and receive railcars to/from the Refinery confine it to collecting only switching revenues.

However, even if the Refinery does not contribute much to a railroad's bottom line, surely public convenience and necessity, not to mention energy independence and national security considerations, warrant, if not demand, improved rail service to a refinery that supplies gasoline to approximately 40 percent of the gasoline to drivers in the Twin Cities region and jet fuel to all of the airlines serving carriers the Minneapolis St. Paul International Airport

My employer is not asking the STB to force on an unwilling industry a revolutionary shift in the way CP operates the St. Paul Transfer Crew nor are we asking the Board to introduce competition where there is none today. Nor are we here to complain about our rates, while steadily increasing, there is no such thing as a reasonable rate at any price in the absence of regular service.

Nor do I believe that the action the STB and CP take in the future or have taken in the recent past should serve to change the competitive environment within or across any the industries. But there can be no doubt that the meltdown of CP switching operations have harmed the competitive position of SPPR as compared with the only other refinery in Minnesota.

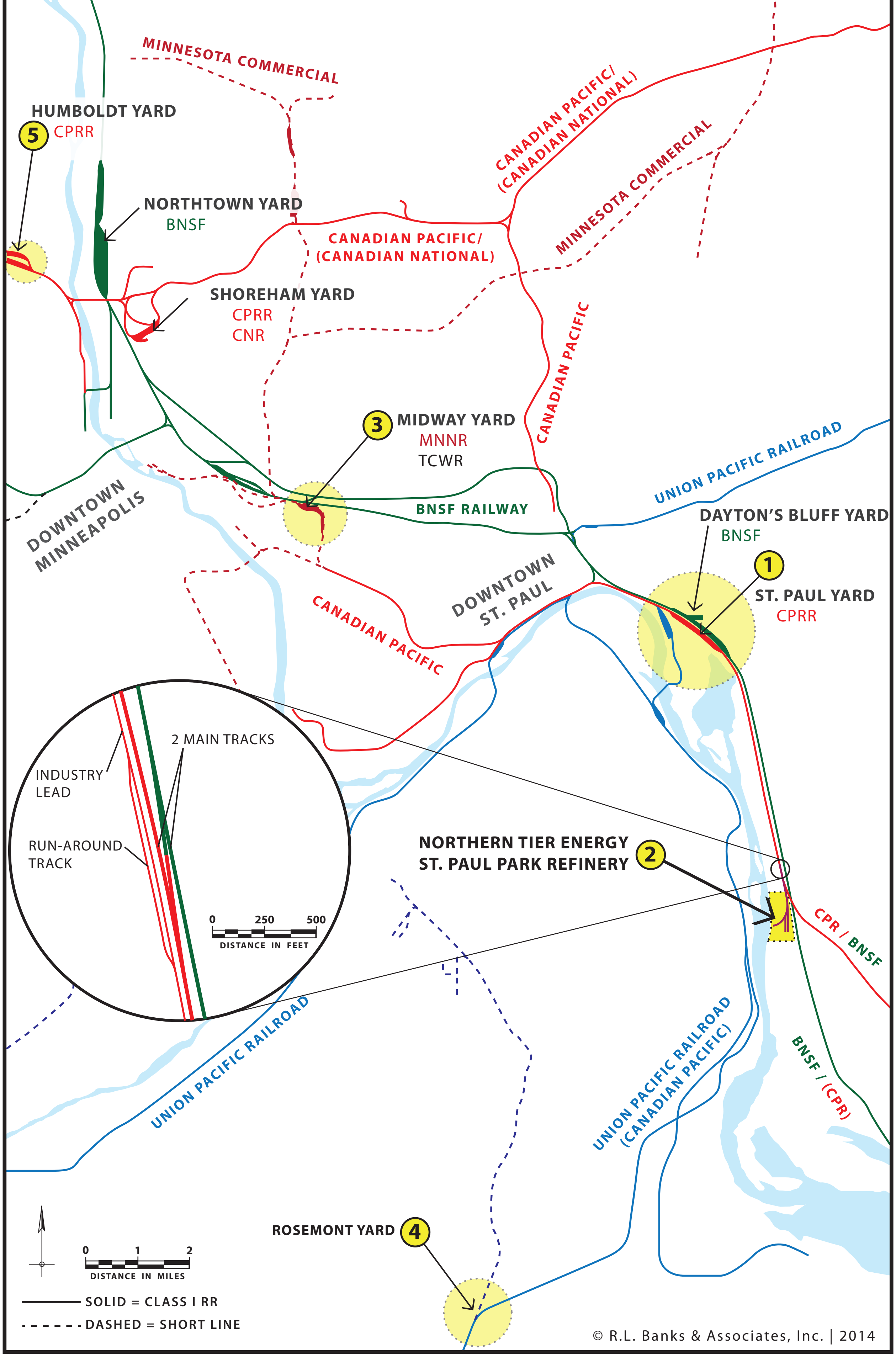
During the recent hearing on Ex Parte 711, Competitive Switching Proposal, the railroad industry and select carriers repeatedly made the claim that the STB should not play the role of picking "winners and losers". Therefore, it is indeed ironic that CP should be able to change the delicate, competitive balance that has existed for many years between SPPR and its only competitor within Minnesota. The railroad industry, powerful as it clearly is, should not be able to choose "winners and losers" either, in the absence of adequate regulatory oversight.

What my employer is seeking specifically, at a minimum, is increased communication from CP. An increase, in both the quality and quantity, of communication, from both the local and corporate levels, hopefully, will resolve our fears that the complete absence of communication in the recent past was not indicative of the fact that CP had no plans or intentions to make operational changes which might restore service. We NEED transparency into what operational changes are being evaluated and implemented in the coming weeks and months so that we not only can interpret what we are experiencing but also give us a timeline and foundation on which to make our own future operational decisions. After all, we've got a business to run also.

Lastly, the most important action I am seeking is accountability. Whatever plans are discussed and communicated by CP need to be dependable and based on a service model which addresses the importance and reliance on consistent rail service that our company and all the industries represented here today have. We have little choice but to demand this action so that we can protect the interests of our employees, our management, our customers and suppliers, our business associates, our equity partners and shareholders, hundreds of thousands of Minnesota area consumers and in the vernacular of a railroad, **OUR** operating ratio.

Thank you again for the opportunity to have been provided a forum in which my employer could express its concerns and hopes.

TWIN CITIES AREA RAILROAD MAP



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March 2014 CP Service Failures

Sunday	Monday	Tuesday	Wednesday	Thrusday	Friday	Saturday
						1 X
2 X	3	4	5 X S	6 X S	7	8 S
9 X	10 X	11 X	12 X	13	14	15 X
16 X	17 X S	18 S	19 S	20	21 X	22
23	24 X	25 X	26 X S	27	28 X	29 X
30 X	31 X S					

April 2014 CP Service Failures

Sunday	Monday	Tuesday	Wednesday	Thrusday	Friday	Saturday
		1	2 X	3 X	4 S	5
6	7 X					

X= Missed switch at SPPR

S = “Shut down” car past due

February 2014 CP Service Failures

Sunday	Monday	Tuesday	Wednesday	Thrusday	Friday	Saturday
						1
2	3	4	5 X	6	7	8 S
9	10 S	11	12	13 S	14	15 X
16 X	17 S	18	19 X S	20 S	21 S	22
23	24 S	25	26 X	27	28 S	

X = Missed switch at SPPR

S = "Shut down" car past due

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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 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

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE, Washington, DC 20002

April 17, 2014

AMTRAK

Chairman Daniel R. Elliott III
Vice Chairman Ann D. Begeman

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Surface Transportation Board
395 E Street SW
Washington, DC 20423-0001

Re: Supplement to April 10, 2014 Testimony of DJ Stadtler – Docket No. EP 724
United States Rail Service Issues

To the Surface Transportation Board,

Amtrak appreciates having had the opportunity to testify at the STB hearing regarding rail service held on April 10, 2014, and the chance to call attention to poor performance experienced by Amtrak passengers on host railroads.

Amtrak offers the following comments to supplement my testimony during the hearing:

In response to the Board's questions during the April 10 testimony regarding delay measurements, we would like to clarify that Amtrak measures of performance, including on-time performance and minutes of delay per 10,000 train miles, have been in use by Amtrak and host railroads since before the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). Although the PRIIA Section 207 process made use of these existing measures, the measures pre-date PRIIA and are not dependent on PRIIA Section 207.

Amtrak would also like to clarify its request of the STB with respect to monitoring performance of Amtrak Services on host railroads. Amtrak's request is that the STB require each Class I host to report to the STB each month on the steps the host is taking to reduce its delays (see Page 1 of the attached) on any Amtrak Services(s) where on-time performance is less than 80% (see Page 2 of the attached).

Respectfully submitted,

DJ Stadtler
Vice President-Operations
Amtrak

MINUTES OF DELAY BY HOST

Per 10K Train Miles

(Red numbers indicate not meeting standard)

Host	Amtrak Service	Total Host Responsible Delays: Current Month, March 2014	Total Host Responsible Delays: Quarter to Date, Jan. 2014 - Mar. 2014	Largest Two Delay Categories - Quarter to Date: #1, Jan. 2014 - Mar. 2014		#2, Jan. 2014 - Mar. 2014		Route Miles
Goal		900	900					
Amtrak	Adirondack	744	843	PTI	354	DCS	226	104
	Blue Water	369	705	PTI	327	DCS	255	99
	Ethan Allen Express	854	1,078	PTI	535	DCS	209	104
	Maple Leaf	849	943	PTI	451	DCS	263	109
	New York - Albany**	329	495	DCS	153	PTI	132	81
	New York - Niagara Falls	785	884	PTI	422	DCS	209	109
	Wolverine	587	822	PTI	401	DCS	224	99
BBrRR	Cardinal	1,807	1,792	FTI	732	PTI	519	125
BNSF	California Zephyr	1,101	1,203	DSR	450	FTI	390	1,027
	Carl Sandburg / Illinois Zephyr	1,291	1,503	FTI	462	DSR	431	257
	Cascades	1,496	1,691	FTI	612	DSR	291	343
	Coast Starlight	952	1,105	FTI	414	PTI	205	186
	Empire Builder	1,859	1,790	FTI	1,013	DSR	417	2,147
	Heartland Flyer	1,818	1,328	DSR	572	FTI	486	238
	Pacific Surfliner	1,204	1,334	DSR	448	DCS	287	22
	San Joaquin	807	850	PTI	350	FTI	271	284
	Southwest Chief	597	602	DSR	160	FTI	159	2,198
	Sunset Limited	398	601	DSR	460	DCS	88	190
	Texas Eagle	1,523	1,552	DSR	1,035	FTI	230	126
CFRC	Auto Train	1,553	1,467	DSR	496	DCS	443	16
	Silver Meteor	3,077	3,190	DCS	1,100	PTI	750	61
	Silver Star	1,454	1,565	DCS	800	DMW	277	61
CN	Adirondack	1,414	1,907	FTI	795	DSR	375	49
	Blue Water	1,232	1,213	FTI	908	DCS	136	159
	City of New Orleans	1,386	1,329	FTI	831	PTI	165	930
	Illini / Saluki	1,418	1,459	FTI	977	PTI	219	306
	Lincoln Service	1,324	1,858	FTI	1,001	DCS	400	37
	Texas Eagle	2,410	2,731	FTI	1,696	PTI	367	37
	Wolverine	1,479	2,251	FTI	828	DCS	697	27
CP	Adirondack	2,979	2,611	FTI	1,062	PTI	653	178
	Empire Builder	2,583	2,217	FTI	1,557	DSR	252	384
	Ethan Allen Express	1,825	1,666	FTI	650	PTI	478	60
	Hiawatha	475	438	FTI	148	DCS	138	53
CSX	Auto Train	1,507	1,560	FTI	602	DSR	341	898
	Capitol Limited	1,798	1,297	FTI	779	DCS	191	307
	Cardinal	1,000	1,479	FTI	619	DCS	435	698
	Carolinian	1,838	1,560	FTI	680	PTI	336	295
	Hoosier State	1,448	2,385	DCS	1,127	FTI	856	169
	Lake Shore Ltd	1,747	1,813	FTI	843	RTE	290	633
	Maple Leaf	2,648	2,138	FTI	929	DSR	402	298
	New York - Niagara Falls	2,221	1,969	FTI	851	RTE	369	296
	Palmetto	1,226	971	FTI	356	PTI	188	659
	Pere Marquette	627	1,149	FTI	326	RTE	275	135
	Richmond/Newport News/Norfolk	2,192	1,780	FTI	465	DSR	420	189
	Silver Meteor	1,004	1,144	FTI	421	DSR	229	1,091
	Silver Star	1,157	1,098	FTI	332	DSR	245	1,148
Fla DOT	Silver Meteor	674	916	CTI	331	DSR	156	68
	Silver Star	842	1,026	CTI	641	DCS	200	68
MBTA	Downeaster	1,291	1,370	DSR	590	CTI	506	38
Metra	Empire Builder	1,526	1,522	CTI	1,084	DSR	160	29
	Hiawatha	1,735	1,908	DSR	572	FTI	486	29
MIDOT	Blue Water	814	912	DCS	395	DSR	292	22
	Wolverine	609	1,034	PTI	449	DCS	362	134
MNRR	Acela Express	661	843	DSR	367	CTI	296	56
	Adirondack	1,266	1,652	CTI	752	DSR	344	64
	All Other NE Regional	812	791	CTI	348	DSR	338	56
	Ethan Allen Express	919	1,072	CTI	630	DSR	204	64
	Lake Shore Ltd	1,780	1,891	CTI	904	RTE	499	64
	Lynchburg	1,710	1,340	RTE	469	CTI	439	56
	Maple Leaf	1,307	1,617	CTI	721	DCS	293	64
	New York - Albany**	961	994	CTI	496	DSR	221	64
	New York - Niagara Falls	1,279	1,389	CTI	697	RTE	302	64
	Richmond/Newport News/Norfolk	707	619	DSR	214	DCS	162	56
	Vermonter	867	1,221	DSR	502	CTI	449	56
NECR	Vermonter	850	721	DSR	539	FTI	132	238
NMDOT	Southwest Chief	1,589	1,280	DSR	729	CTI	251	80
NS	Blue Water	4,573	4,148	FTI	1,275	DSR	857	39
	Capitol Limited	1,794	2,018	FTI	1,083	RTE	323	481
	Cardinal	503	793	PTI	242	FTI	163	79
	Carolinian	347	334	DSR	112	PTI	107	202
	Crescent	1,031	1,019	FTI	538	DSR	178	1,141
	Lake Shore Ltd	2,105	2,403	FTI	1,344	RTE	327	339
	Lynchburg	272	247	FTI	81	DCS	76	166
	Pennsylvanian	501	378	FTI	193	RTE	76	249
	Pere Marquette	4,105	4,717	FTI	1,496	DSR	942	39
	Piedmont	579	661	DSR	184	FTI	159	173
	Richmond/Newport News/Norfolk	426	490	DSR	214	DCS	162	81
	Silver Star	348	424	PTI	133	DCS	118	28
	Wolverine	4,556	4,567	FTI	1,814	DCS	790	39
PanAm	Downeaster	652	628	PTI	269	FTI	136	77
SCRRA	Coast Starlight	1,976	2,047	PTI	1,222	CTI	586	48
	Pacific Surfliner	1,036	959	PTI	449	CTI	292	95
SDNRR	Pacific Surfliner	1,390	1,420	CTI	559	PTI	506	60
UP	California Zephyr	827	988	FTI	367	DCS	252	1,431
	Capitol Corridor	481	676	PTI	169	DSR	164	168
	Cascades	1,222	1,481	FTI	603	PTI	503	125
	Coast Starlight	1,038	1,107	PTI	386	FTI	275	1,159
	Lincoln Service	1,213	1,589	PTI	559	DCS	432	231
	Missouri River Runner	576	509	FTI	302	DCS	80	271
	Pacific Surfliner	958	852	PTI	589	DCS	117	174
	San Joaquin	973	1,346	PTI	357	DSR	265	88
	Sunset Limited	1,242	1,456	FTI	699	DSR	270	1,784
	Texas Eagle	2,195	1,886	FTI	881	DCS	356	1,104
VTR	Ethan Allen Express	135	249	FTI	195	DCS	54	24

*** Includes only trains that operate solely between New York and Albany*

Excludes hosts with fewer than 15 route miles.

Delays on the Amtrak-owned portion of the Northeast Corridor are shown in a separate report, with tighter delay standards.

Northeast Regional: Lynchburg includes all trains between Lynchburg and points on the NEC; Richmond / Newport News includes all trains between Richmond or Newport news and points on the NEC.

ON-TIME PERFORMANCE

(Red numbers indicate not meeting standard)

	All-Stations OTP		Endpoint OTP		Change in Effective Speed
	Current Month	Quarter to Date	Current Month	Quarter to Date	Last Twelve Months Ending
	March 2014	Jan. 2014 - Mar. 2014	March 2014	Jan. 2014 - Mar. 2014	Mar. 2014 vs. FY08
Acela Express					
PRIIA Section 213 Standard	*80.0%*	*80.0%*	*80.0%*	*80.0%*	
Acela Express	82.6%	77.2%	77.1%	69.5%	-1.1
All Other NEC Corridor Services					
PRIIA Section 213 Standard	*80.0%*	*80.0%*	*80.0%*	*80.0%*	
Keystone	95.5%	88.6%	87.2%	73.3%	-0.8
Northeast Regional	81.4%	77.5%	77.0%	71.2%	-0.4
Richmond/Newport News/Norfolk	74.8%	73.9%	77.9%	74.6%	-0.1
Lynchburg	75.1%	69.8%	85.5%	77.2%	NA
All Other Northeast Regional	85.5%	80.2%	76.2%	69.9%	-0.3
Non-NEC Corridor Services					
PRIIA Section 213 Standard	*80.0%*	*80.0%*	*80.0%*	*80.0%*	
Capitol Corridor	96.6%	95.1%	95.4%	94.9%	2.3
Carolinian	64.9%	68.8%	66.1%	72.0%	0.9
Cascades	70.0%	66.9%	73.1%	67.9%	-0.6
Downeaster	92.0%	90.1%	81.3%	77.0%	-1.7
Empire Corridor	71.1%	67.5%	74.6%	69.8%	0.5
Adirondack	62.0%	54.0%	53.2%	48.3%	0.8
Ethan Allen Express	86.5%	79.4%	82.3%	73.9%	2.2
Maple Leaf	51.0%	47.8%	62.9%	56.1%	-0.1
New York - Albany**	94.0%	90.0%	88.2%	81.7%	1.3
New York - Niagara Falls	52.3%	53.6%	43.5%	47.8%	-0.9
Heartland Flyer	78.3%	87.3%	54.8%	75.0%	0.0
Hiawatha	94.7%	87.3%	86.3%	76.7%	-1.2
Hoosier State	60.8%	50.9%	48.6%	39.6%	0.8
Illinois	63.9%	54.3%	63.5%	50.7%	1.5
Carl Sandburg / Illinois Zephyr	71.3%	64.0%	74.2%	61.2%	-1.4
Illini / Saluki	47.5%	42.1%	49.2%	41.6%	1.7
Lincoln Service	69.1%	56.2%	65.3%	50.0%	2.3
Michigan	63.9%	47.7%	51.9%	31.6%	1.4
Blue Water	52.9%	49.0%	41.9%	35.4%	5.0
Pere Marquette	80.3%	58.2%	53.2%	30.7%	1.4
Wolverine	64.8%	46.0%	54.8%	30.7%	0.1
Missouri River Runner	87.8%	87.5%	87.9%	86.9%	8.5
Pacific Surfliner	87.2%	89.1%	76.8%	78.2%	-0.2
Pennsylvanian	87.8%	82.4%	91.9%	86.7%	1.1
Piedmont	90.3%	89.2%	69.5%	71.3%	1.7
San Joaquin	81.3%	80.1%	81.5%	80.9%	-0.3
Vermonter	75.9%	67.1%	80.6%	73.3%	3.5
Long-Distance Services					
PRIIA Section 213 Standard	*80.0%*	*80.0%*	*80.0%*	*80.0%*	
Auto Train	75.0%	66.4%	71.0%	60.9%	-0.7
California Zephyr	46.5%	37.1%	64.5%	48.3%	2.9
Capitol Limited	34.7%	40.0%	43.5%	42.7%	1.5
Cardinal	54.5%	41.3%	76.9%	45.5%	0.5
City of New Orleans	39.0%	41.4%	58.1%	55.6%	1.0
Coast Starlight	64.1%	58.1%	88.7%	77.2%	1.0
Crescent	54.9%	56.5%	50.0%	52.8%	-0.1
Empire Builder	17.1%	16.0%	17.4%	20.4%	-2.3
Lake Shore Ltd	29.2%	24.5%	37.1%	32.7%	-1.1
Palmetto	66.3%	64.5%	68.4%	72.7%	0.5
Silver Meteor	41.3%	38.0%	56.5%	48.6%	-0.6
Silver Star	48.3%	50.3%	54.8%	59.4%	0.7
Southwest Chief	51.6%	53.3%	77.4%	70.0%	-0.2
Sunset Limited	49.6%	48.5%	73.1%	63.6%	3.1
Texas Eagle	29.5%	36.5%	32.3%	45.5%	2.3

*** Includes only trains that operate solely between New York and Albany.*

Northeast Regional: Lynchburg includes all trains between Lynchburg and points on the NEC; Richmond/Newport News includes all trains between Richmond or Newport news and points on the NEC.

Change in Effective Speed is calculated as Last Twelve Months Effective Speed (ending March) minus FY08 Effective Speed

National Grain
and Feed Association
www.ngfa.org

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April 17, 2014

Surface Transportation Board
Attn.: Docket No. EP 724
395 E St., S.W.
Washington, DC 20423-0001

Dear Members of the Board:

The National Grain and Feed Association (NGFA) appreciates the opportunity to submit this statement to amplify the oral comments made on its behalf by NGFA Rail Shipper/Receiver Committee Chairman Kevin Thompson, assistant vice president and transportation lead for the Grain and Oilseed Businesses at Cargill Incorporated, Minneapolis, Minnesota, during the Board's April 10, 2014 public hearing on U.S. rail service issues.

The NGFA consists of more than 1,000 grain, feed, processing and grain-related companies that operate approximately 7,000 facilities that handle about 70 percent of all U.S. grains and oilseeds. NGFA's membership includes grain elevators; feed and feed ingredient manufacturers; biofuels companies; grain and oilseed processors and millers; exporters; livestock and poultry integrators; and associated firms that provide goods and services to the nation's grain, feed and processing industry. Also affiliated with the NGFA are 26 state and regional grain and feed associations. NGFA works to foster an efficient free-market environment that produces an abundant, safe and high-quality supply of grain, feed and feed ingredients for domestic and world consumers.

The NGFA commends the Board for initiating the public hearing, and appreciated the opportunity to speak on behalf of shippers and receivers of grain, oilseeds and grain products concerning the serious rail service disruptions that plagued our industry since last fall.

This statement is supported by six other national agribusiness organizations: Agricultural Retailers Association, Corn Refiners Association, National Chicken Council, National Council of Farmer Cooperatives, National Oilseed Processors Association and North American Millers Association.[1]

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[1] **Agricultural Retailers Association** is a national non-profit trade organization for agricultural retailers and distributors of agronomic crop inputs with members covering virtually all of the 50 states and representing over 70 percent of all crop input materials sold to America's farmers. These inputs are used to nourish and protect a wide variety of crops, from major row crop commodities to specialty crops. Members not only sell agronomic crop inputs but actually apply with their own equipment basic crop nutrients and crop protection products; over half of ARA's

This statement first provides several real-world examples of the impact – in terms of market impacts and costs – that rail service disruptions have had on NGFA-member companies and the producer-customers they serve. Second, it provides some observations resulting from the ongoing dialogue the NGFA has been having with several affected Class I rail carriers. Finally, this statement concludes with several specific NGFA recommendations on the types of actions we believe the Board can and should take to improve the relevance, timeliness and transparency of service-related metrics and information that would be useful to rail customers to assist in planning logistics during the anticipated long, slow restoration of service – particularly in the Western United States – that the NGFA has been told could stretch well into 2015.

Rail-served agricultural markets today generally are characterized by long-haul movements between varying origin-and-destination pairs separated by distances of 500 to 1,500 miles or more. For these agricultural markets, there is no good substitute for reasonably available, reliable and competitively priced rail service.

But that has been the exception, rather than the rule, since last fall – long before the onset of harsh winter weather. Rail service disruptions have been widespread and severe, involving Class I rail carriers operating in both the West and East, as well as in Canada. In the West, shippers served by the BNSF Railway and Canadian Pacific have

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members custom-apply fertilizer for their customers on about 45% of their total acres served. ARA membership is diverse, from small family-run businesses of 10 employees to farmer cooperatives with one thousand or more employees and large corporations with thousands of employees and multiple branches. Suppliers of the products sold by retailers are also members of the association.

Corn Refiners Association (CRA) is the national trade association representing the corn refining industry of the United States. CRA and its predecessors have served this important segment of American agribusiness since 1913. Corn refiners manufacture sweeteners, ethanol, starch, bioproducts, corn oil and feed products from corn components such as starch, oil, protein and fiber.

National Chicken Council represents companies that produce and process more than 95 percent of the chicken in the United States. Chicken processors are among the largest users of rail services to transport grain, oilseed, and other commodity feed ingredients.

National Council of Farmer Cooperatives (NCFC), established in 1929, is comprised of regional and national farmer-owned cooperatives, which in turn are comprised of nearly 3,000 local farmer cooperatives across the country. The majority of America's 2 million farmers and ranchers belong to one or more farmer cooperatives. NCFC members also include 26 state and regional councils of cooperatives. Farmer cooperatives handle, process and market almost every type of agricultural commodity; furnish farm supplies; and provide credit and related financial services, including export financing. Earnings from these activities are returned to their farmer members on a patronage basis, helping improve their income from the marketplace. Farmer cooperatives also provide over 250,000 jobs, with a total payroll in excess of $8 billion, and contribute significantly to the economic well-being of rural America.

National Oilseed Processors Association, established in 1929, has as its mission assisting the U.S. soybean, canola, flaxseed, sunflower seed and safflower seed processing industries to be the most competitive and efficient in the world by utilizing the combined expertise, knowledge and resources of its members to foster market- and science-based policies. NOPA represents 13 member companies that process over 1.6 billion bushels of oilseeds annually at 63 plants in 19 states, including 15 plants that process soybeans.

North American Millers' Association is the trade association of the wheat, corn, oat and rye milling industries in the United States and Canada. Its member companies operate mills in 38 states and Canada, representing more than 90 percent total industry production capacity.

been particularly hard hit – especially in areas like North and South Dakota, Montana and parts of Minnesota, where few, if any, viable alternatives to rail exist for moving grain, grain products and fertilizer. Meanwhile, in the Eastern United States, NGFA-member companies served by the Norfolk Southern and the CSX also have reported significant service disruptions. Further, in the case of the NS, they also have expressed concerns over the lack of adequate, consistent and current information on which to make logistics plans and adjustments, where possible, hamstringing business operations.

The NGFA's strong preference is to have individual rail customers that confront service-related issues seek to resolve them in one-on-one discussions with their respective carriers in a commercial business setting. But since early January when the impacts of rail service disruptions began being felt industry-wide, the NGFA has taken on a greater role in addressing service-related issues directly with rail carriers on behalf of its member companies. We will continue to do so until this crisis abates.

The sheer gravity, magnitude and scope of rail service disruptions now being experienced are unprecedented, and have rippled through all sectors of grain-based agriculture. As a result:

- Country elevators and other originators of grain and grain products are extremely hesitant to price and book forward sales from farmers or commercial elevators because they cannot count on predictable rail service or reflect the current level of freight costs in their price bids.

- Many country elevators, as a result of the heavy 2013 harvest and lack of rail service, have found it necessary to store greater-than-normal quantities of grain in emergency space – outside in ground piles. Those facilities that are federally licensed by the U.S. Department of Agriculture under the U.S. Warehouse Act face a March 31 deadline for relocating such outside-stored grain to permanent storage. Similar restrictions are imposed by many states under state-licensing systems.

- Grain processors and export elevators have idled or significantly reduced operating capacity because of an inability to predictably source sufficient quantities of grains and oilseeds.

- Millers in the upper and central Midwest are confronting facility shut-downs as they run out of raw commodities to process, including oats and certain classes of wheat.

- Still other grain processing and animal feeding operations, particularly in the Eastern United States, are shifting to comparatively inefficient and much more costly long-haul truck movements in an attempt to obtain sufficient quantities of grains and oilseeds. Still others are switching rail origination to other carriers in the limited instances where that is possible.

- And for the first time in a long time, the United States' hard-earned reputation as the world's most reliable supplier of grains, oilseeds and grain products to export markets has been put at risk.

Some specific examples of economic harm caused by rail service disruptions have been provided to NGFA by member companies in response to our request.

One pressing immediate need voiced by NGFA member companies concerns the inability of carriers to deliver fertilizer in time for planting season in the upper Midwest, which is costing millions of dollars in additional shipping costs because of the need to divert to truck transportation. The advent of larger planters and other farm equipment has shortened the time window for applying fertilizer, and there is an urgent need from farmers to obtain bulk, liquid and anhydrous fertilizers. Without these essential farm supplies, the productive capacity of U.S. farmers will be undermined.

In the West, the Canadian Pacific has been 60 days late or later in providing 100-car unit trains, and up to four months late on non-shuttles. Meanwhile, the BNSF only now is providing certificate of transportation – or COT – trains that shippers had paid to have delivered in late January and early February. The NGFA also has received repeated reports of locomotives being de-linked from trains and cars sitting loaded – but idled – at grain facilities for weeks on end.

In the East, there have been sharply reduced turn times on unit trains for both domestic and export service, increasing car costs, reducing capacity and causing repeated functional shut-downs of feed mills dependent upon rail deliveries. Likewise, single-car shipments of ingredients for feed in both the East and West have been delayed.

In addition, freight delays have caused grain, feed and grain processing firms to breach commitments to farmers and commercial customers alike. Grain and feed ingredient contracts have needed to be renegotiated and re-priced – often at a significant penalty – as they were under-filled or rolled forward to future delivery dates because they could not be executed within the contractual time commitment.

Another fallout is illustrated by the values paid in the secondary rail car freight market, which traded at levels of as great as $6,000 per car on one carrier. That translates to a $1.65-per-bushel just to access equipment, and is a stark reflection in monetary terms of the extent to which service disruptions have affected agricultural shippers. The majority of secondary freight has traded at values of approximately $4,000 per car, equating to $1 per bushel.

One NGFA-member company provided the following actual case involving a unit train shipment of soybeans from North Dakota to the Pacific Northwest in March, in which the tariff rate was approximately $5,000 per car and the expense to secure the necessary rail freight from the secondary market amounted to another $4,000 per car. After adding the fuel surcharge, the actual cost translated to $2.60 per bushel, with transportation alone representing 40 percent of the total cost.

For a time, our industry absorbed most of these additional expenses. But over the last 30 days, such escalating costs attributable to service disruptions have been reflected in lower price bids to farmers in several regions of the country.

For instance, in Montana, the per-bushel price for wheat offered to producers in March declined by up to $1 per bushel. Were such a depreciated price to last through the remainder of the 2013/14 marketing year, that would translate into a $203 million loss for Montana wheat farmers based upon the state's wheat crop size. Attached to this statement are charts that also illustrate the precipitous decline in price bids offered to farmers in North and South Dakota for corn, soybeans and wheat.

Additional costs also have been incurred by shippers and receivers that operate privately owned hopper car fleets. For instance, one NGFA-member company in the Eastern United States reported that the number of "turns" it got in its private-hopper car fleet declined from an average of 2.5 turns per month to 1.5 turns between October 2013 and March 2014, effectively increasing its fleet cost and decreasing its carrying capacity by 60 percent.

Cost impacts on individual grain, feed, grain processing and export facilities obviously vary. But several NGFA-member companies have reported that the costs to their individual firms have ranged from $10 million to $20 million during the October to March period.

Over the past 15 years, the U.S. grain handling, processing and export industry, as well as its producer-customers, have made extensive private capital investments – including greatly expanded grain handling and loading capacity, private car fleets and additional track capacity – to further enhance efficiency. Some of that investment was made at the behest of rail carriers seeking improved economies-of-scale. But despite these investments, our industry has found itself being unable to serve customers efficiently or reliably during the most recent harvest season because of the precipitous decline and unpredictability in service from several Class I carriers.

Even during periods not characterized by the type of severe service disruptions being experienced currently, ag rail users often find that when rail capacity is in tight supply, rail service appears to suffer more for our sector than for other sectors that may be viewed as "higher-priority" by railroads, such as coal, energy and intermodal.

This raises a core question that NGFA believes the Board needs to assess carefully. Namely, to what extent do Class I rail carriers in this highly concentrated rail market have a common-carrier obligation to provide reasonable service on reasonable request? For example, at what point is a railroad's decision to skew its allocation of resources and service toward certain products that maximize its profits become inconsistent with its statutory common-carrier obligation? What are rail carriers' obligations to balance their business desire for greater volumes and greater profitability with the traditional, statutory obligation to provide reasonable service across all customer segments?

Concerning current service disruptions, the NGFA and its member companies have been in active discussions with several affected rail carriers on the root causes, as well as each carrier's recovery plans for restoring service. It is clear that while the harsh winter weather has been a contributing factor, these service disruptions began occurring last fall, well before the onset of winter.

There also clearly were other root causes, such as a misreading of the volume of business that would be generated by agriculture, coal, energy and other sectors; inadequate locomotive power and crews; and operations-related issues, such as the continuation of maintenance-of-way projects during the peak harvest period.

The NGFA has encouraged affected carriers to provide more information on when measurable improvements in rail service realistically can be expected, and to ramp up their ongoing communications with customers to provide timely and frequent information if their service commitments cannot be attained. This information is critical for our industry to be able to adjust business plans and attempt to minimize the economic harm to operations and revenues, and to serve customers. We're pleased that the BNSF, in particular, has responded with increased, ongoing communications with our Association and its member companies, as well as agricultural producers and other customers. We believe this positive dialogue with the BNSF will continue.

However, the NGFA believes the current situation warrants increased monitoring and collection of data on rail service metrics by the Board. Our industry and our farmer-customers need sufficient information about the operations and service levels that realistically can be expected from their rail carriers if they are to have a chance to manage market risk and meet customer requirements.

Recommendations for STB Collection and Dissemination of Service Metrics

For these reasons, the NGFA believes strongly that the Board immediately should begin requiring affected Class I rail carriers to report – and subsequently should make publicly available to rail customers – the following types of specific service-related metrics. Access to this information would assist rail users in making logistics plans and enhance the Board's ability to monitor service.

1. Real-time information on train velocity and cycle times, as well as realistic projections restoring service.

2. Weekly car loadings by product and state.

3. Weekly average dwell times for trains hauling grain and grain products, coal and crude oil from January 2012 onward.

4. Weekly averages for miles-per-day transited for grain, coal and crude oil since January 2012 going forward.

5. The level of capacity utilization by rail corridors, particularly in the heavy grain corridors of the Pacific Northwest and Texas Gulf. For example, if a Class I carrier's capacity is 40 trains per day within the Pacific Northwest corridor, what percentage of that capacity currently is being utilized and what is the product mix?

6. Real-time data on the number of grain/oilseed, coal and crude oil sets transported by quarter starting in January 2012 and into the future.

7. Breakouts of capital spending by Class I carriers. The NGFA commends rail carriers for investing in their infrastructure, particularly investments that add to capacity to serve growing demand. But we believe it would be advisable for carriers to report the share of capital spending being directed to new infrastructure capacity, such as new track, versus replacement of existing infrastructure. The NGFA also recommends that the STB require carriers to report on a quarterly basis **net** crew and locomotive changes so rail users better can assess these barometers of potential service improvement.

   Frankly, some carriers have been more forthcoming than others in reporting specifics on how their infrastructure investment is being allocated – and what portion actually represents new capacity versus replacement of existing infrastructure, locomotives and cars. But as the NGFA suggested to the STB in its 2006 statement in Ex Parte No. 665 – Rail Transportation of Grain – we believe the STB could perform a valuable role by collecting and standardizing such information across all Class I carriers, and reporting publicly how those investments in infrastructure and personnel are being allocated across various business sectors served by the carriers in what appears to be continuing robust demand for rail services across various industry sectors. Such reporting also would provide the Board with information to determine whether any sectors are being demarketed or disadvantaged at the expense of others.

In addition, the NGFA recommends that the Board obtain and make available publicly the following information for each Class I carrier:

1. What plans, if any, do each of the Class I carriers now experiencing service disruptions have to take on additional business before current service issues are resolved? For instance, will carriers award power and crews on a first-come, first-served basis during this period of severe service disruption? Further, what, if any, resources have been transferred from the Canadian Pacific's U.S. operations to Canada?

2. What plans do Class I carriers have for reducing operations-related service disruptions that occurred last fall – including maintenance-of-way restrictions.

Specifically, we believe the Board should require Class I carriers to provide rail customers with advance information on the precise location and duration of specific service disruptions caused by infrastructure projects.

Finally, we believe that during this period of service disruption, the Board should require affected Class I rail carriers to provide consistent, web-based communications and e-blasts to all of their rail customers on the status of their service and train orders. Some Class I railroads are doing a commendable job in in this regard – the BNSF and CSX, in particular. But others clearly are not, relying more on word-of-mouth or calls to specific, but not all, customers. Rail users need more consistency in communications across-the-board, particularly in this service-disrupted environment.

Conclusion

Rail users need sufficient logistical information from their carriers to manage market risk and serve customers. Simply put, there needs to be significantly more predictability in the level of rail service, and mechanisms need to be put in place to reduce service variability that our industry has experienced over the last six months or longer.

At this stage, the NGFA does not believe it is advisable for the Board to take actions in the United States similar to those implemented by the Canadian government. We fear such measures could exacerbate and further slow the recovery and restoration of predictable, reliable U.S. freight rail service. Thus, we are not at this time asking the Board to issue directed-service orders that would create preferences for agricultural shipments. But the NGFA is asking the Board to exercise very vigilant oversight during this period of service disruption to prevent rail carriers from allocating limited available capacity to serve new business from non-agricultural sectors, such as coal and energy, to the detriment of agricultural customers.

We also believe the current rail environment points to the importance of the Board's proceeding on competitive switching rules under Ex Parte No. 711. The rail service disruptions experienced by agricultural shippers are tangible examples of why captive rail shippers and receivers need enhanced access to the lines of other carriers wherever possible to keep facilities open and operating, and markets served. Competitive switching also is integral to maintaining a national rail freight network and to preserving the competitive fabric of U.S. agriculture and the nation's economy.

The NGFA also believes strongly that these rail service disruptions point to the urgency of the United States adopting a comprehensive, "all-of-the-above" transportation infrastructure policy that supports all modes – including inland waterways, harbors and ports, and trucks. We need all transportation modes if we're going to move this nation.

The NGFA appreciates the opportunity to express its views and recommendations concerning U.S. rail service issues, and would be pleased to respond to any questions the Board may have.

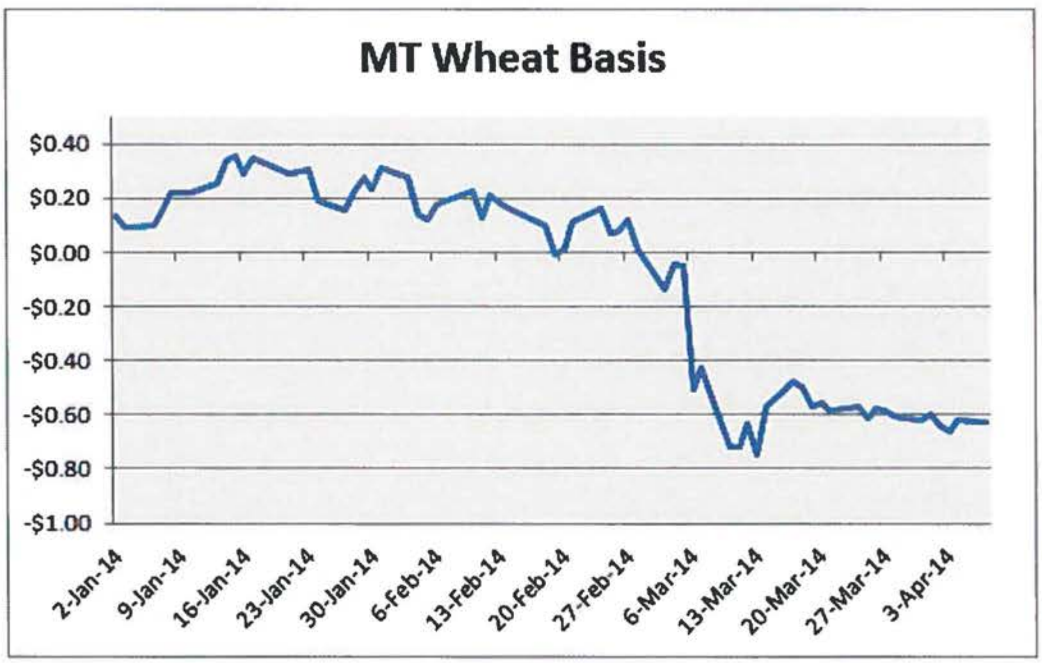
Sincerely,

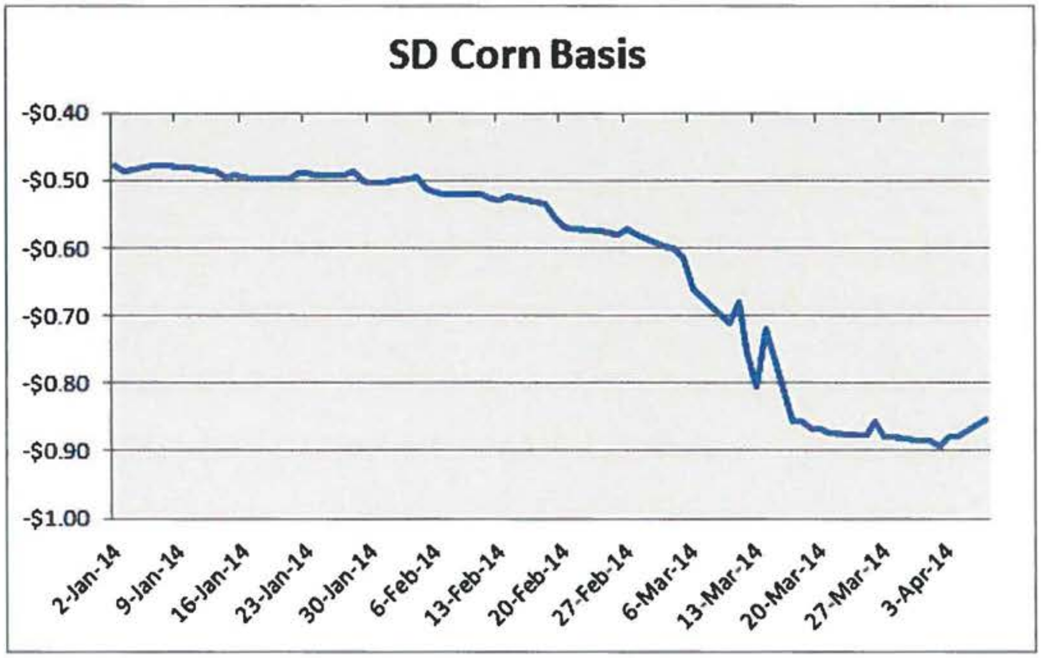
Kevin Thompson
Chairman
Rail Shipper/Receiver Committee
National Grain and Feed Association

Randall C. Gordon
President
National Grain and Feed Association

Appendix

Rail Service Disruptions – Impact on Prices Bid to Farmers

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-$0.60
-$0.70
-$0.80
-$0.90
-$1.00
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9-Jan-14
16-Jan-14
23-Jan-14
30-Jan-14
6-Feb-14
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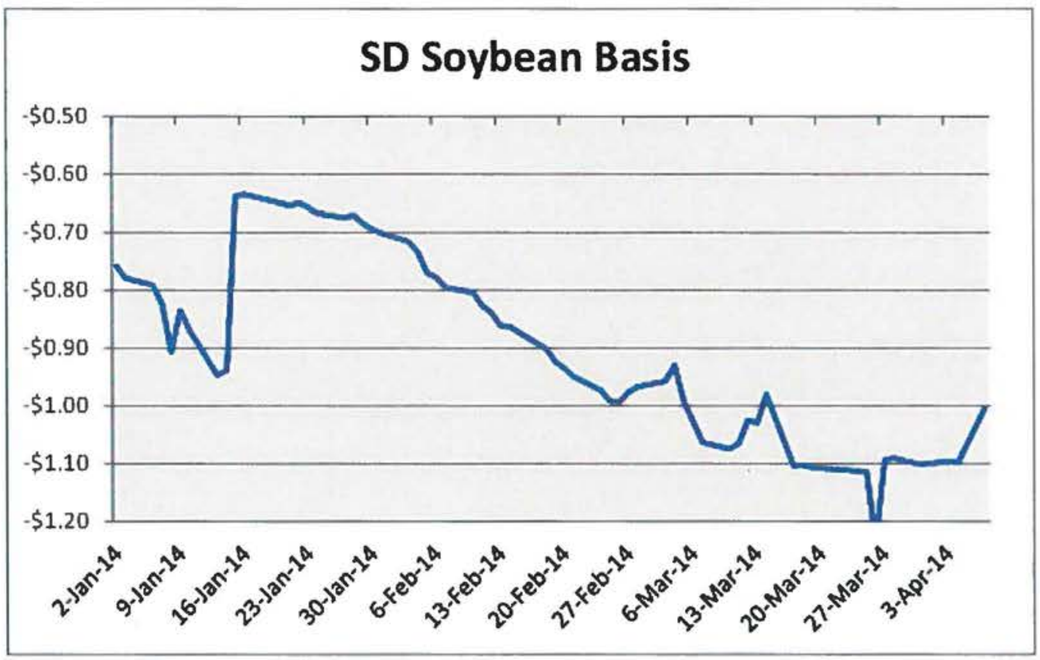
27-Mar-14
3-Apr-14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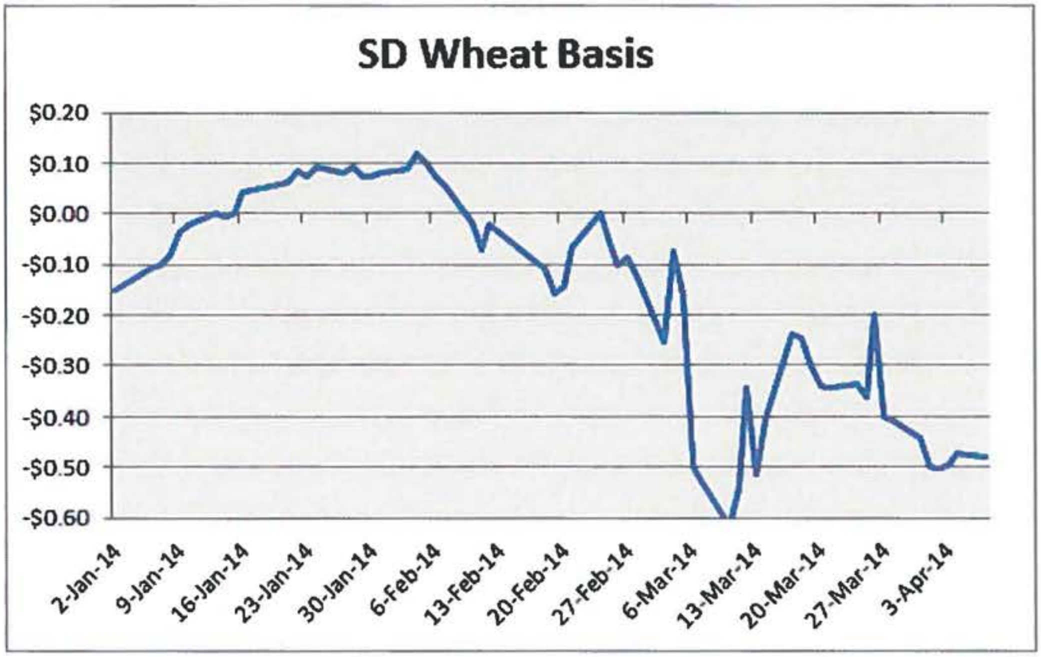
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-$0.10
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23-Jan-14
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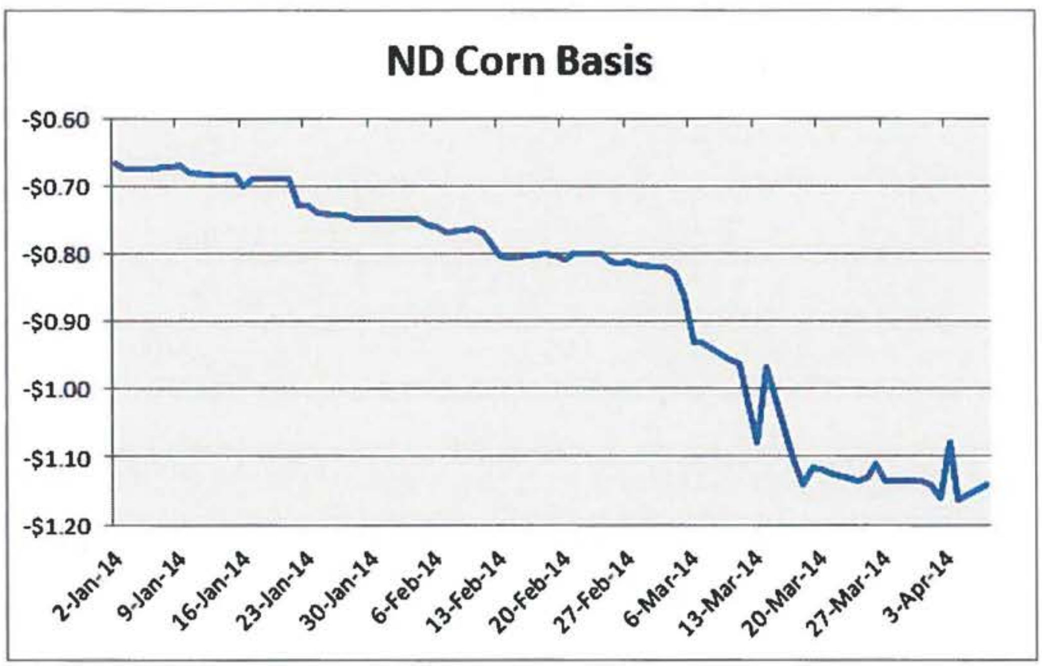
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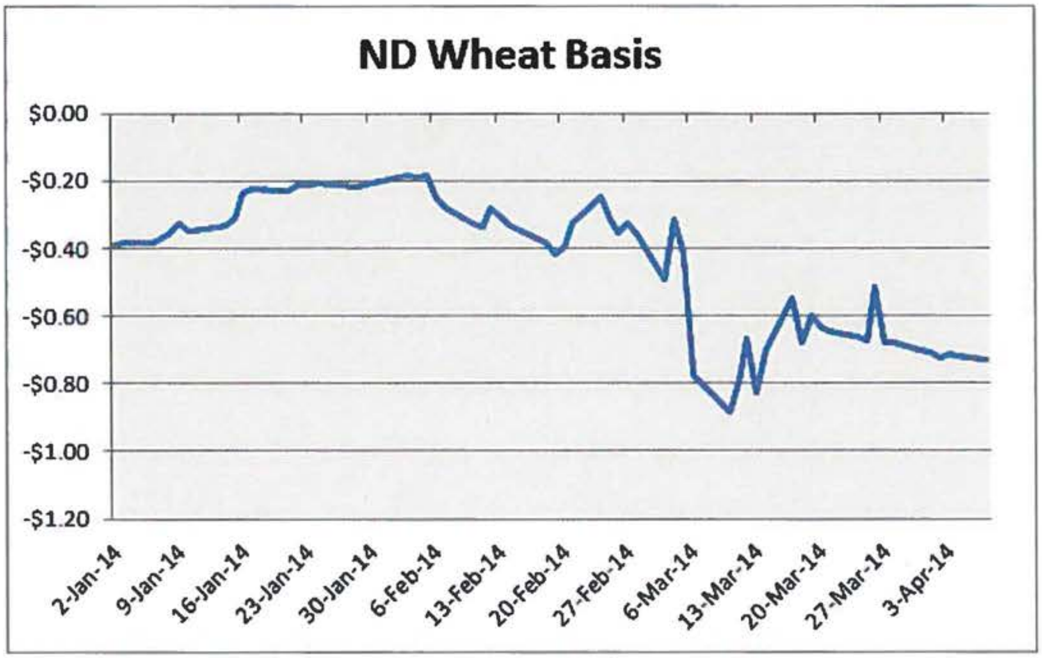
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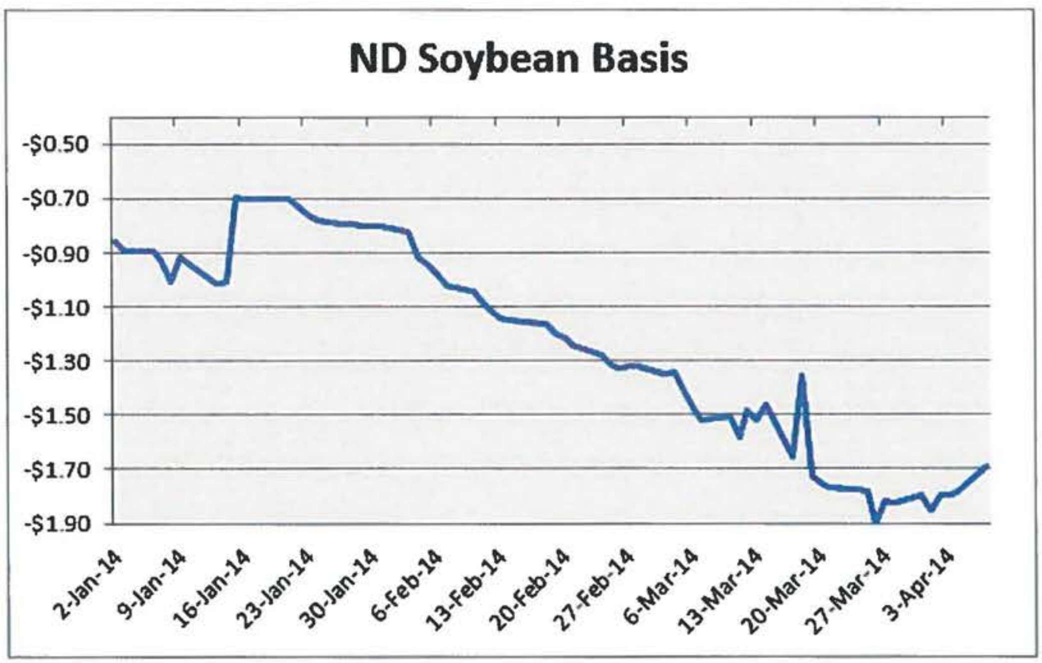
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6-Mar-14
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27-Mar-14
3-Apr-14

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STB Docket No. EP 724

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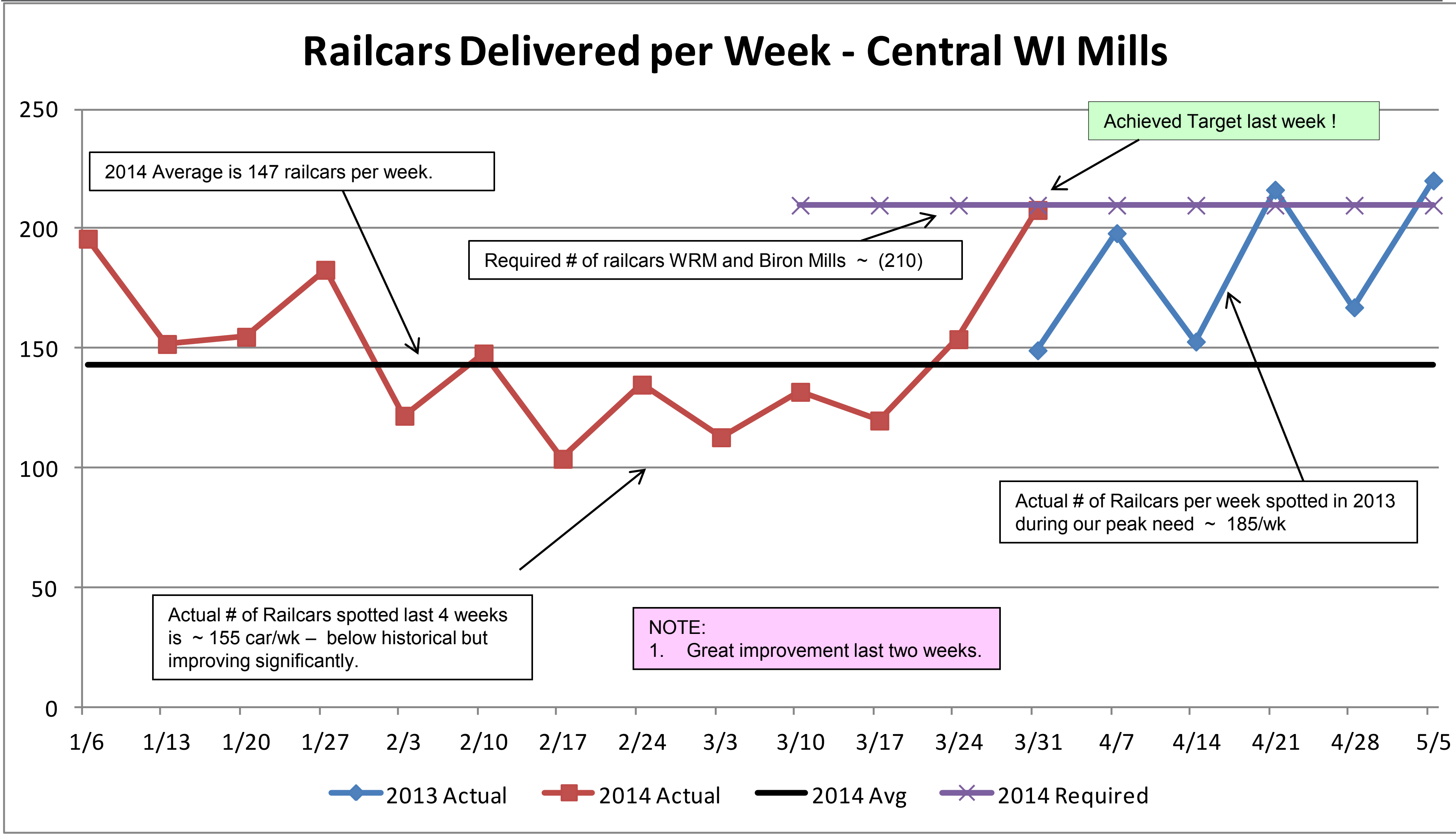
Locations

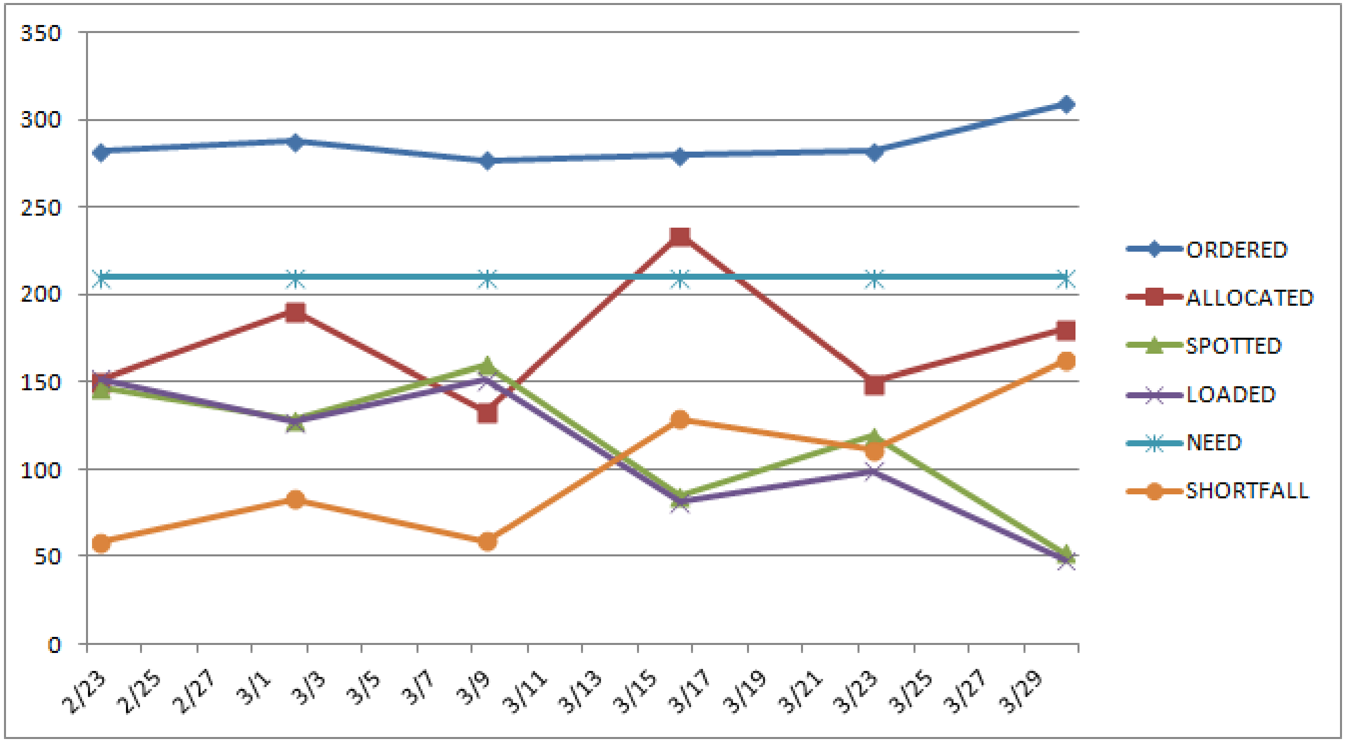
- CN – Escanaba, MI
- CN – Wisconsin Rapids, WI
- CN – Biron, WI
- CN – Stevens Point, WI
- CN – Wickliffe, KY
- CN – Chicago Heights, IL
- BNSF – Duluth, MN
- CSXT – Luke, MD
- ST – Rumford, ME

NewPage Footprint

WRM and Biron Railcar Deliveries – Actual & Forecast



Log Landings Car Order/Placement



Gave official shutdown notice to CN on Feb. 25, 2014, for all Wisconsin mills on April 27th. Due to decreased service since notice, the date has moved up to April 17th.

	ORDERED	ALLOCATED	SPOTTED	LOADED	NEED	SHORTFALL
2/23	282	151	147	152	210	**58**
3/2	288	191	128	127	210	**83**
3/9	277	133	160	151	210	**59**
3/16	280	234	85	81	210	**129**
3/23	282	150	119	99	210	**111**
3/30	309	180	52	48	210	**162**

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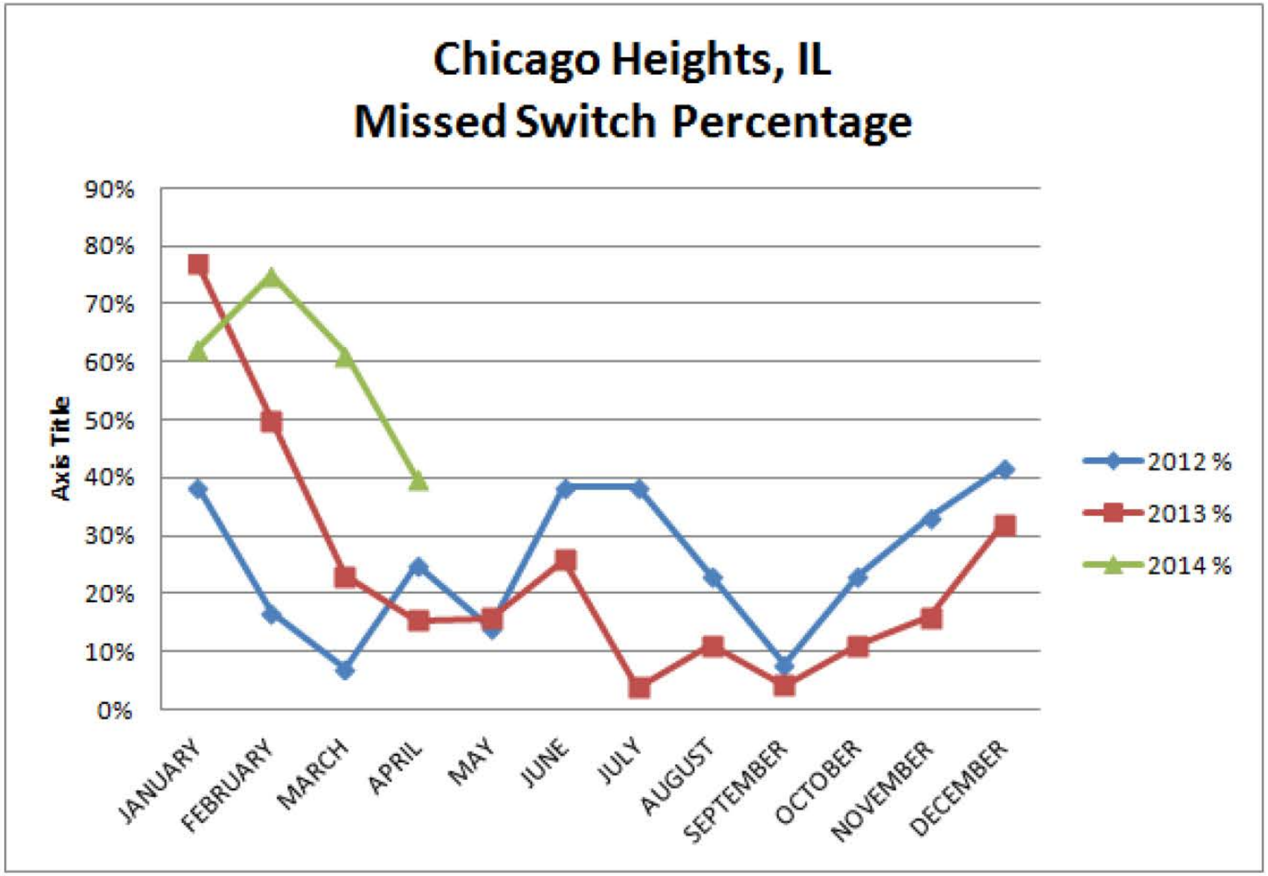
Former EJ&E, Chicago Heights, IL Switch Schedule Performance



Missed Switches			
	2012	2013	2014
JANUARY	38%	77%	63%
FEBRUARY	17%	50%	75%
MARCH	7%	23%	62%
APRIL	25%	15%	40%
MAY	14%	16%	
JUNE	38%	26%	
JULY	38%	4%	
AUGUST	23%	11%	
SEPTEMBER	8%	4%	
OCTOBER	23%	11%	
NOVEMBER	33%	16%	
DECEMBER	42%	32%	

Duluth, MN - BNSF

NewPage Duluth, MN

- Car Supply
  - 50' box car
    - Lack of car supply; nearly cut in half compared to our need
    - Issue with high percentage of rejects in the fleet

- Mill has decreased outbound rail shipments by 40% due to lack of car supply
  - Traditionally a 90% rail mill
  - Currently a 50% rail mill

Appendix

Car Order/Placement Wisconsin for “Loggers”

23-Feb							
LOCATION	ORDERED	ALLOCATED	SPOTTED	LOADED	**DELTA**	NEED	SHORTFALL FROM SHUTDOWN AVOIDANCE
Ashland	30	6	5	5	**-25**		
Fifield	65	25	44	44	**-21**		
South Itasca	75	75	47	47	**-28**		
Gulliver	30	15	8	8	**-22**		
Ladysmith	45	15	17	17	**-28**		
Stanbery	12	3	14	14	**2**		
Somerset	0	0	0	0	**0**		
Spur D-15	25	12	12	17	**-8**		
TOTAL	**282**	**151**	**147**	**152**	**-130**	**210**	**58**
2-Mar							
LOCATION	ORDERED	ALLOCATED	SPOTTED	LOADED	**DELTA**	NEED	SHORTFALL FROM SHUTDOWN AVOIDANCE
Ashland	30	15	18	18	**-12**		
Fifield	60	40	31	31	**-29**		
South Itasca	75	75	19	19	**-56**		
Gulliver	30	15	18	18	**-12**		
Ladysmith	45	21	22	14	**-31**		
Stanbery	23	12	5	5	**-18**		
Somerset	0	0	0	0	**0**		
Spur D-15	25	13	15	22	**-3**		
TOTAL	**288**	**191**	**128**	**127**	**-161**	**210**	**83**

Car Order/Placement Wisconsin for "Loggers"

9-Mar							
LOCATION	ORDERED	ALLOCATED	SPOTTED	LOADED	**DELTA**	NEED	SHORTFALL FROM SHUTDOWN AVOIDANCE
Ashland	30	15	17	17	**-13**		
Fifield	60	30	42	28	**-32**		
South Itasca	75	37	36	20	**-55**		
Gulliver	30	20	19	32	**2**		
Ladysmith	45	15	14	22	**-23**		
Stanbery	12	5	6	6	**-6**		
Somerset	0	0	0	0	**0**		
Spur D-15	25	11	26	26	**1**		
TOTAL	**277**	**133**	**160**	**151**	**-126**	**210**	**59**
16-Mar							
LOCATION	ORDERED	ALLOCATED	SPOTTED	LOADED	**DELTA**	NEED	SHORTFALL FROM SHUTDOWN AVOIDANCE
Ashland	30	16	7	7	**-23**		
Fifield	65	65	15	15	**-50**		
South Itasca	75	75	34	18	**-57**		
Gulliver	30	25	8	17	**-13**		
Ladysmith	45	21	0	0	**-45**		
Stanbery	10	7	6	11	**1**		
Somerset	0	0	0	0	**0**		
Spur D-15	25	25	15	13	**-12**		
TOTAL	**280**	**234**	**85**	**81**	**-199**	**210**	**129**

Car Order/Placement Wisconsin for “Loggers”

NewPage

23-Mar							
LOCATION	ORDERED	ALLOCATED	SPOTTED	LOADED	**DELTA**	NEED	SHORTFALL FROM SHUTDOWN AVOIDANCE
Ashland	30	14	18	18	**-12**		
Fifield	65	30	47	31	**-34**		
South Itasca	75	30	19	19	**-56**		
Gulliver	30	24	20	26	**-4**		
Ladysmith	45	21	0	0	**-45**		
Stanbery	12	6	5	5	**-7**		
Somerset	0	0	0	0	**0**		
Spur D-15	25	25	10	0	**-25**		
TOTAL	**282**	**150**	**119**	**99**	**-183**	**210**	**111**
30-Mar							
LOCATION	ORDERED	ALLOCATED	SPOTTED	LOADED	**DELTA**	NEED	SHORTFALL FROM SHUTDOWN AVOIDANCE
Ashland	30	24	10	0	**-30**		
Fifield	65	34	0	0	**-65**		
South Itasca	75	38	22	11	**-64**		
Gulliver	50	36	15	12	**-38**		
Ladysmith	45	17	0	10	**-35**		
Stanbery	19	6	0	0	**-19**		
Somerset	0	0	0	0	**0**		
Spur D-15	25	25	5	15	**-10**		
TOTAL	**309**	**180**	**52**	**48**	**-261**	**210**	**162**