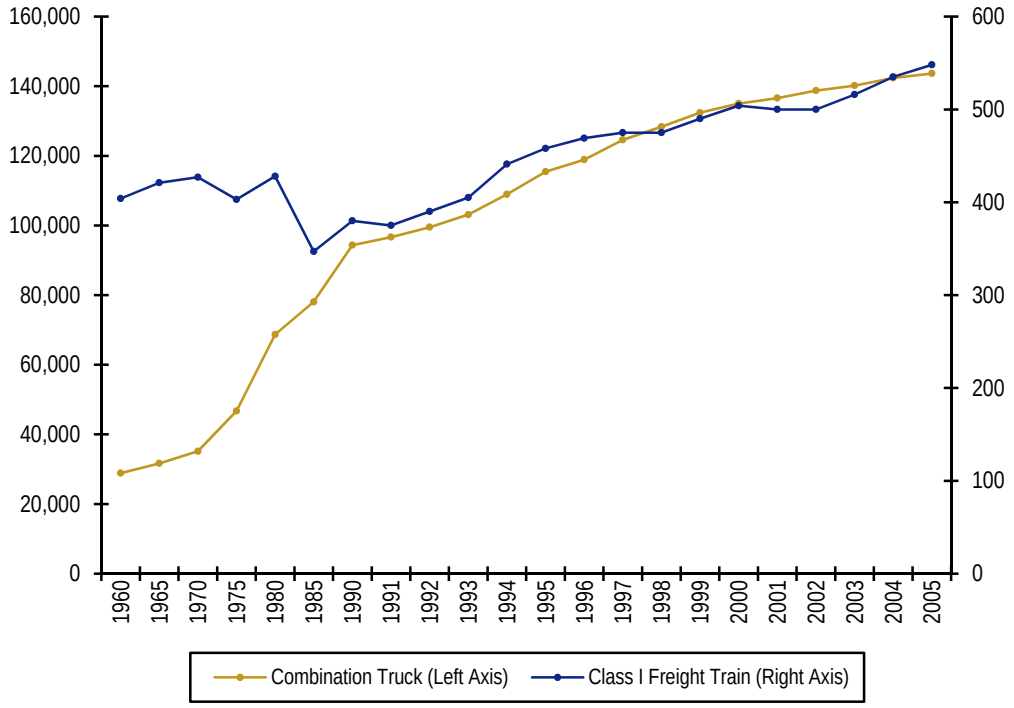
Executive Summary

The 2010 Montana State Rail Plan describes historical and forecasted freight trends, provides operating and system characteristics of the State's freight rail system, and summarizes ongoing efforts to expand and secure funding for additional passenger rail service through the State. The Plan also describes the impact of grain facility consolidation; identifies potential rail funding programs to acquire, improve, establish, or rehabilitate intermodal rail equipment or facilities; and lists several other ongoing issues affecting rail service in Montana, such as rail competition and growing freight volumes. The following sections summarize the key topics in each chapter of the 2010 Montana State Rail Plan.

FREIGHT TRENDS

As consumer demand for goods has increased over the past several decades, freight service demand has grown along with it (Figure ES.1). In 2005, over 4.5 trillion ton-miles of freight were shipped in the United States – about 15,300 ton-miles per capita. Rail transportation, the fastest growing among the freight modes, represented the largest share (38 percent) of the freight ton-miles shipped in the United States. National increases in freight volume between 2002 and 2035 are generally balanced among modes, and increases in volume will be strongest in intermodal and truck movements. In Montana, growth in freight volume and value is concentrated in truck and intermodal movements, as rail shipments of coal and agricultural products are not expected to expand dramatically in volume or value. This section of the report has extensive data on the modal shares of freight in Montana. Although the current national recessionary conditions have contracted both truck and train volumes, freight volumes are likely to pick up again once the economy improves.

Figure ES.1 U.S. Combination Truck Vehicle-Miles and Train-Miles



By 2035, total freight tonnage in Montana is projected to increase by 101 percent to 216.8 million tons. In both 2002 and 2035, truck shipments account for the largest share of within-state tonnage, with rail transport a distant second. The majority of freight shipped to Montana is similarly split between truck and rail. However, rail dominates from-state tonnage and is expected to account for 81 percent of exports from the State in 2035. This reflects the fact that rail is the preferred mode for transporting basic bulk commodities produced by Montana's mining and agricultural industries.

Montana is situated on a trade corridor that links the midwestern and northwestern port markets. As a result, there is significant demand for through-bound rail service. Table ES.1 shows that almost three quarters of all rail freight by revenue passes through the State, hauling high-value interurban shipments and bulk commodity shipments originating elsewhere. Shipments originating from Montana account for most of the remainder (22 percent by revenue). Rail trips terminating in Montana (3 percent by revenue) and those completely contained within the State (1 percent by revenue) make up smaller shares of the total, reflecting the State's relatively low population and status as a net exporter of goods shipped by rail. Most higher-value (i.e., finished) goods produced and consumed in the State rely on truck traffic.

Table ES.1 Summary of Rail Freight Tonnage and Revenue by Trip Type

Trip Type	Tonnage (Millions)	Revenue (Millions Dollars)
Through Trips	56.4	$2,673.9
Originated Trips	42.0	$800.4
Terminated Trips	2.8	$94.5
Intrastate Trips	2.1	$20.4
Total	103.4	$3,589.0

Source: Cambridge Systematics analysis of STB waybill sample data.

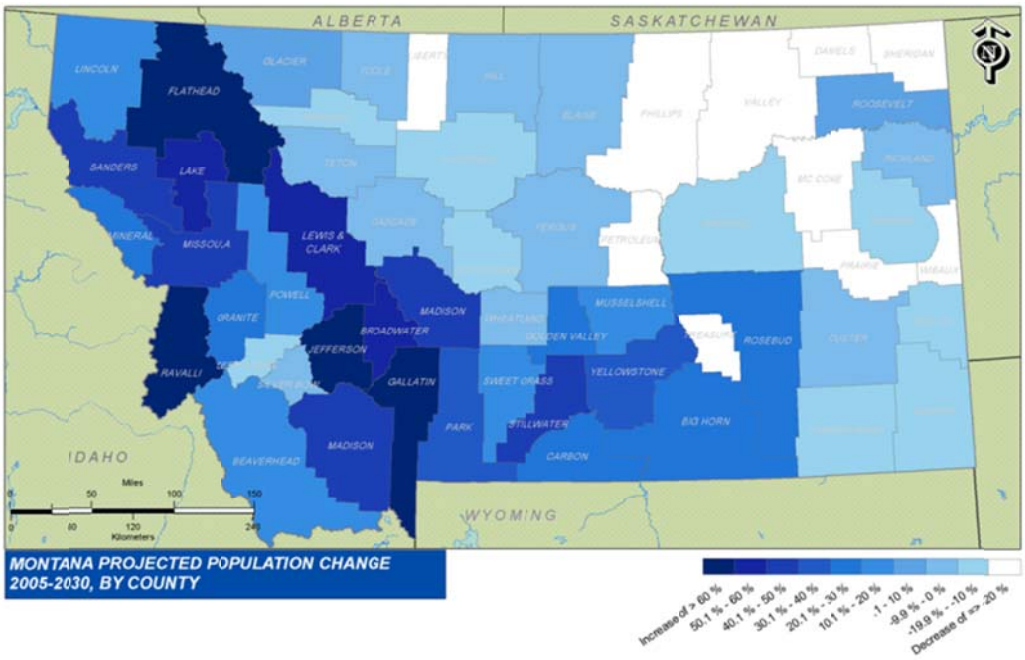
Measuring in tonnage alters the picture slightly, primarily because of the high amount of bulk commodities shipped by rail from Montana, such as coal, minerals, metallic ores, and cereal grains. Through trips account for 54 percent of the total tonnage, while 41 percent originates in the State. This section of the report describes in greater detail the rail traffic originating and terminating in Montana and traffic moving through the State.

Of rail shipments originating in Montana, coal accounts for 71 percent of the tonnage, followed by farm products (15 percent), petroleum or coal products (5 percent), with all other commodities less than 10 percent of tonnage. Coal accounts for 48 percent of the value of rail shipments originating in Montana, followed by farm products (24 percent), petroleum and coal products (10 percent), lumber and wood products (10 percent) and all other commodities less than 8 percent. This difference in volume and value indicates that farm products (particularly wheat) are a high-value product for Montana rail shippers. The top states receiving rail traffic are Minnesota, Wisconsin, Washington, and Oregon. Three of these states have export ports that distribute Montana products.

Of rail traffic moving through Montana (the majority of shipments moving in the State), intermodal/miscellaneous mixed shipments and farm products comprise the two highest value commodities (each are 25 percent of total value), followed by lumber/wood products. In terms of tons, farm products are the largest commodity (37 percent of volume), followed by intermodal/miscellaneous mixed shipments (19 percent), lumber/wood products (9 percent). The Pacific Basin ports in Washington and Oregon are the prime origins or destinations for through rail traffic by value, including Washington-Illinois (both ways), Minnesota to Washington and South Dakota to Washington. The largest state pairs by tons are Minnesota to Washington and South Dakota to Washington. Data indicates that other movements (almost 50 percent of value and 45 percent of tons) are generally from West Coast states and the Midwest and Mountain West, and from states and Canada.

Forecast population growth (greater than 60 percent from 2005 to 2030 in some counties) will increase the size of local consuming markets in Montana, further increasing the demand for freight transportation. Figure ES.2 shows population change in Montana counties from 2005 to 2030. Through-rail freight – which is the largest component of rail movements in Montana by both weight and value – will also expand as population, production, and distribution centers on the West Coast and Midwest grow. Overall, these trends point to long-term growth in demand for freight rail service in Montana.

Figure ES.2 Projected Population Change 2005-2030
By County



Source: Census and Economic Information Center, Montana Department of Commerce, analysis by NCS Data Services, 2007.

STATE RAIL PLANNING

In 2006, eight freight railroads operated 3,270 rail miles in Montana. Combined, Montana's railroads carried over 2.1 million total carloads, accounting for nearly 110 million total tons of freight, in 2006.[1] Table ES.2 summarizes the rail miles contributed by each carrier and Figure ES.3 illustrates the State's freight railroad network. This section of the report describes each subdivision of Burlington Northern Santa Fe (BNSF) and Montana Rail Link railroads, and maps and describes each other railroad operating in the State.

Table ES.2 Montana Railroad Statistics

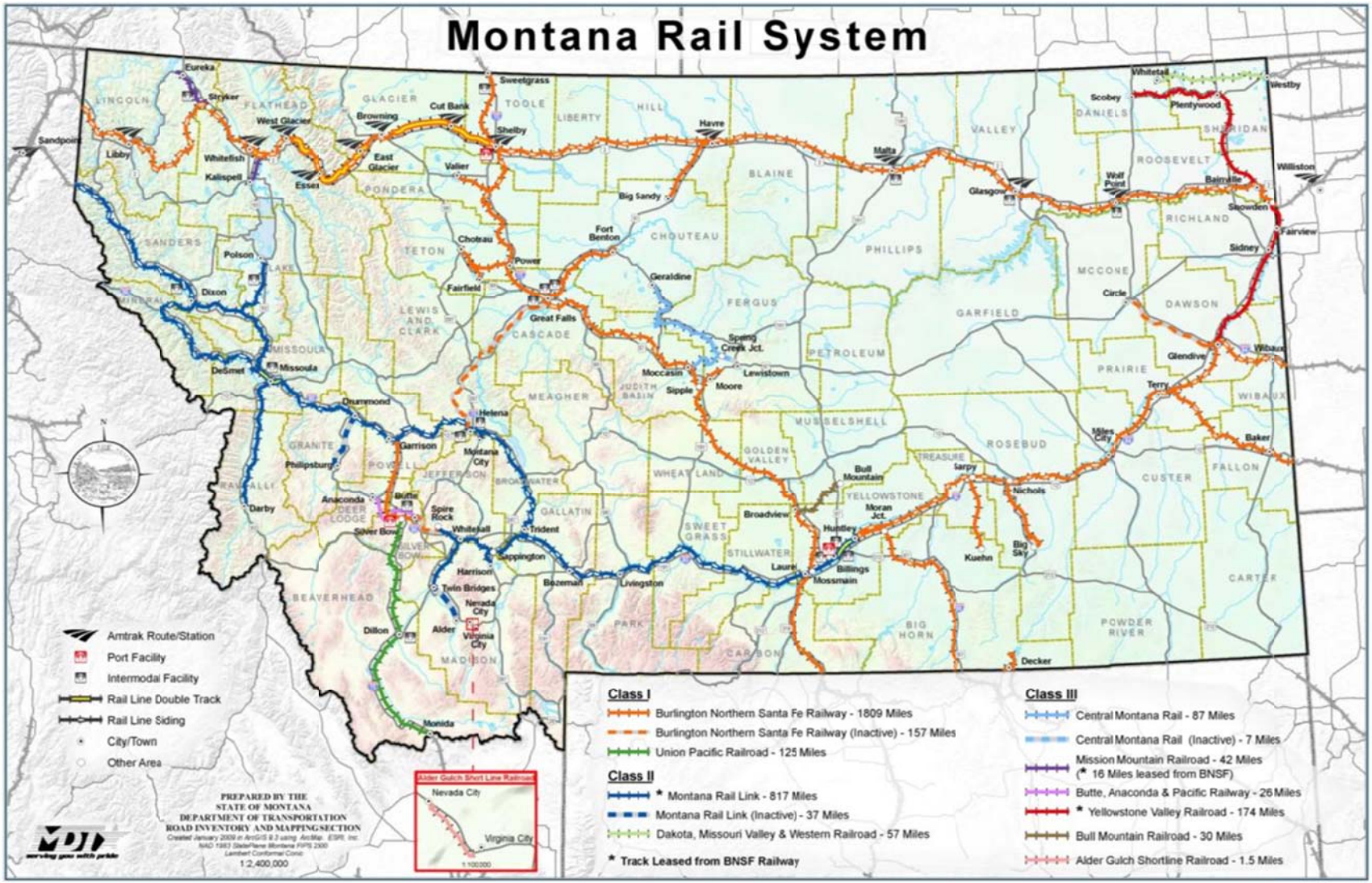
	Miles of Railroad Operated in Montana		
	2000	2005	2006
BNSF Railway	2,135	1,983	1,942
Union Pacific	125	125	125
Class I Railroads Total	2,260	2,108	2,067
Dakota, Missouri Valley, and Western	57	58	58
Montana Rail Link	812	807	807
Regional Railroads Total	869	865	865
Central Montana Rail	87	88	88
Mission Mountain Railroad	N/A	39	39
Yellowstone Valley Railroad	N/A	186	186
Montana Western Railway	59	N/A	N/A
Butte, Anaconda and Pacific Railway	69	25	25
Local Railroads Total	215	338	338
Network Total	3,344	3,311	3,270

Source: 2005 and 2006 data from the Association of American Railroads, 2000 data from the 2000 Montana State Rail Plan Update.

Note: Miles operated includes trackage rights. One mile of single track is counted the same as one mile of double track.

[1] Association of American Railroads, Railroad Service in Montana 2006, June 2008. Available at: http://www.aar.org/PubCommon/Documents/AboutTheIndustry/RRState_MT.pdf.

Figure ES.3 Montana Rail System



BNSF is the largest railroad operator in Montana, accounting for 94 percent of the State's Class I rail miles. In 2007, BNSF hauled $131 million of revenue freight within Montana, realizing a 6 percent growth since 2005.[2] Coal accounts for approximately 75 percent of BNSF's revenue freight (in terms of tonnage) originating within Montana. Other key commodities hauled by BNSF in Montana include farm products, lumber and wood products, and petroleum and coal products. BNSF rail lines with the most traffic include the entire route across the northern section of the State, from Snowden east to Libby and beyond (generally referred to as the Hi-Line), the routes with coal traffic – from the Big Horn subdivision to the line from near Billings to Glendive, and then to North Dakota beyond Wibaux. The BNSF line from Laurel to Great Falls and Shelby has moderately heavy volume.

Union Pacific (UP) is the other Class I railroad operating in Montana. Despite having a relatively limited number of track miles in the State, UP provides a critical connection between the Port of Montana in Silver Bow County (where UP owns and operates an automotive distribution center) and markets in the western U.S. and southwestern U.S., which are not accessible by other rail carriers in the State. Forest products, combined with lumber and wood products, accounted for approximately 75 percent of UP's tonnage originating in Montana. Other key commodities transported on the line include chemicals and allied products, petroleum and coal products, and nonmetallic minerals (except fuels).

Dakota, Missouri Valley, and Western Railroad (DMVW) is a regional railroad, formerly part of the Soo Line Railroad, with 364 total track miles in Montana and North Dakota. Located in the northeast corner of the State, DMVW operates 57 miles of road in Montana. Wheat is the primary commodity hauled on this line, accounting for almost 96 percent of total revenue freight in 2007.[3]

After assuming control of Montana's southern route from the Burlington Northern Railroad in 1987, Montana Rail Link (MRL) is one of two Class II regional railroads operating in the State. Of the 875 miles of MRL track located in Montana, MRL leases approximately 70 percent of its road, including 557 miles of main line leased from BNSF.[4] Between 2005 and 2007, MRL experienced notable increases in both carloads and tonnage primarily due to increases in coal movements. In addition to coal, the primary commodities transported by MRL in Montana include farm products, petroleum and coal products, and lumber and wood products. The main line from Laurel to Bozeman, Helena, Missoula northwest to Sandpoint, Idaho is the heaviest traveled MRL line.

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[2] BNSF Railway, 2005 and 2007 Annual Reports to the Montana Public Service Commission.

[3] Dakota, Missouri Valley, and Western Railroad, Annual Report to the Montana Public Service Commission, 2007.

[4] Montana Rail Link, Annual Report to the Montana Public Service Commission, 2007.

Central Montana Rail, Inc. (CMR), a Class III local railroad, operates 87 route miles in the center of the State with a connection to a BNSF main line at Moccasin. While wheat accounts for approximately 92 percent of CMR's total revenue freight, CMR also hauls barley, fertilizer, and scrap.[5] In 2007, CMR transported a total of 82,100 tons, attributing to an intrastate operating revenue of $617,827. A seasonal passenger/tourism train also operates on the line.

The Mission Mountain Railroad (MMR), a subsidiary of Watco Industries that owns and operates 17 short-line railroads across the country, consists of two rail segments totaling nearly 47 miles in Montana. In 2007, MMR hauled 164,620 freight car-miles and 9,790 gross ton-miles, primarily transporting barley, lumber, and various wood products.[6]

Similar to MMR, Watco Industries also operates the Yellowstone Valley Railroad (YVR) short-line railroad. YVR operates in Northeast Montana and serves several grain elevators along its 179-mile route. With intrastate operating revenues totaling $353,000 in 2007, YVR's primary commodities included fertilizer, petroleum, and wheat.[7]

Butte, Anaconda & Pacific Railway (BA&P), formerly referred to as the Rarus Railway, operates 25 miles of road between Butte and Anaconda in the southwest area of the State. While an excursion train also operates on the line between June and September, the principal commodities hauled on the line include copper concentrate and mine tailings.[8]

Two additional Montana freight rail lines are in various planning stages. Global Rail Group, a division of Signal Peak Energy (formerly Bull Mountain Rail), finished construction in 2009 of a 36 miles single-track rail spur to serve the Signal Peak Coal Mine in southeastern Montana. The line's initial haulage capacity is 10 million gross tons annually, and will increase to 15 million tons as necessary. Portions of the Tongue River Railroad have been proposed for construction since 1983, and have been subjects of various proceedings at the U.S. Surface Transportation Board (STB) and its predecessor, the Interstate Commerce Commission. While legal challenges remain, however, no definitive timeframe has been set for construction and operation of the Tongue River Railroad.

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[5] Central Montana Rail, Inc., Annual Report to the Montana Public Service Commission, 2005-2007.

[6] Mission Mountain Railroad, Annual Report to the Montana Public Service Commission, 2007.

[7] Yellowstone Valley Railroad, Annual Report to the Montana Public Service Commission, 2007.

[8] Butte, Anaconda, and Pacific Railway, Annual Report to the Montana Public Service Commission, 2007.

Several segments of existing rail lines are currently at risk for abandonment. Changing economic conditions, such as the relocation of a major shipper or a reduction in commodity value or variety, may entice a rail carrier to pursue abandonment if revenues do not support a line segment's operating and maintenance costs. On the BNSF network, abandonment is in process for nearly two miles of road near Great Falls, while abandonment of a section near Glendive-Circle is currently on hold. Several segments of MRL are currently out of service and the YVR segment between Plentywood and Scobey has been a candidate for abandonment for several years.

PASSENGER RAIL SERVICE

For most of the last century, passenger rail service was available between the Midwest and the Pacific Northwest, over the Empire Builder along the Great Northern Railroad, and the North Coast Limited along the Northern Pacific Railroad. Today, the Empire Builder still serves Montana communities and remains one of Amtrak's most popular long-distance routes, but no passenger rail service has been available in southern Montana since the late 1970s. In FY 2009, the Empire Builder had the highest ridership of all of Amtrak's long-distance trains, 515,444, as well as the highest revenue, $59.7 million. Nationally, this train was the second best performing long-distance train, as measured by the operating loss per passenger-mile.[9] The Empire Builder provides valuable benefits to northern Montana residents who depend on passenger rail for medical appointments, sending children to college, and traveling to larger cities along the route for shopping.

Passenger rail advocates, Montana legislators, and Montana Department of Transportation (MDT) officials have been discussing the possibilities of resuming passenger rail service among Montana's largest cities in the south once served by the North Coast Hiawatha. In most cases, Amtrak is authorized and generally willing to provide intrastate passenger rail service if a state government is willing to provide capital costs for infrastructure and equipment and pay the difference between operating expenses and revenues on an annual basis. Many states support these kinds of services, and some state-supported routes are among Amtrak's most financially successful services. Amtrak's legacy routes from its 1971 creation, generally referred to as long-distance trains (such as the Empire Builder), are supported by Federal appropriations for Amtrak operating expenses.

[9] Operating loss per passenger mile is calculated as the difference between operating expense and operating revenue divided by the number of passenger miles. Operating expenses include direct expenses directly attributable to train operations (crews, fuel, equipment maintenance, ticketing, route stations) and indirect expenses shared by all Amtrak routes (shared stations, training and supervision, police and safety, insurance, marketing, yard operations). Revenues include ticket revenue and sleeper car revenues.

In 2008, Congress directed Amtrak to examine the possibility of reinstating passenger rail service on the North Coast Hiawatha route.[10] Amtrak published the resulting study findings in October 2009. The report examined the route generally followed by the former North Coast Hiawatha (NCH) route with a few exceptions. Amtrak estimated the capital and up-front costs of the NCH route to total $1.043 billion. Amtrak estimated that the NCH annual operating cost would be $74.1 million, resulting in a $31.1 million operating loss. The NCH revenues would cover 58 percent of operating costs, which suggests that the NCH would perform better financially than most Amtrak long-distance trains.

Amtrak produced a study in 2010 for Montana that analyzes two route segments in southern Montana: the corridor between Billings and Missoula (considered in greater depth, and referred to in this text as the Tier 1 analysis); and a longer corridor that includes the Billings-Missoula segment extending from Williston, North Dakota to Sandpoint, Idaho (referred to as the Tier 2 analysis).[11]

The two-tiered study of new passenger rail service in Montana provided by Amtrak, illustrated in Figure ES.4, addresses:

1. Capital and operating costs, ridership, and revenue for intercity passenger rail service from Billings to Missoula along routes operated by the Montana Rail Link (MRL), via Bozeman, Livingston, and Helena (Tier 1) (see Figure 4.3); and
2. Route assessment and implementation of intercity passenger rail service from Williston, North Dakota to Sandpoint, Idaho over routes operated by the Yellowstone Valley Railroad, BNSF, and MRL (Tier 2).

The Tier 1 analysis estimated capital and up-front costs, developed a proposed operating schedule for Tier 1 service, and estimated annual ridership, revenues, and operating costs. Table ES.3 lists the summary information from the Tier 1 analysis.

[10] PRIIA Section 224 North Coast Hiawatha Passenger Rail Study ("NCH Study"), found on http://www.amtrak.com/servlet/ContentServer/Page/1241245669222/1237608345018, under PRIIA submissions and reports, October 16, 2009.

[11] Amtrak Montana Report, 2010: Feasibility and Route Assessment.

Figure ES.4 Amtrak Analysis
Two Tiers

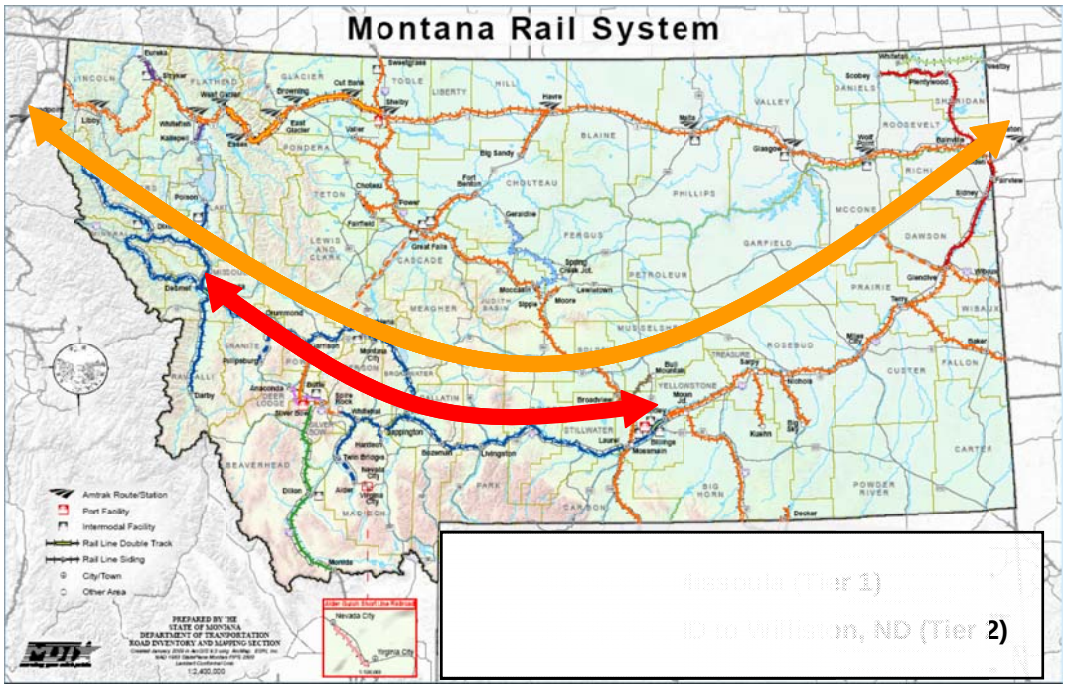


Table ES.3 Summary Information for Tier 1 Route

Element	Amount
One Time Capital Costs	$159,050,000
Estimated Annual Ridership	15,300
Estimated Annual Passenger Revenue	$400,000
Estimated Annual Operating Costs	$12,600,000
Estimated Annual Operating Subsidy	$12,200,000

Source: Amtrak Montana Report, 2010: Feasibility and Route Assessment.

For the Tier 2 analysis, Amtrak assessed capital improvements that would be necessary between Williston, North Dakota, and Sandpoint, Idaho to meet both the requirements of passenger service and the operating needs of the host railroads. This assessment was accomplished by a limited sample of route inspections and through information from the host railroads.

The Tier 2 analysis did not include capital cost estimates similar to those in Tier 1. The MRL segments of the line (Missoula to Sandpoint) are in excellent condition and would likely require only modest capital investments. However, the eastern segments from Glendive to Snowden will require more extensive

infrastructure improvements: track and signal upgrades and maintenance, expanded sidings, and grade crossing protection upgrades. Capital cost estimates for these segments would be highly speculative without more detailed engineering analysis, and therefore this 2010 State Rail Plan does not include those capital cost estimates.

To begin new service, non-Federal funding will likely be required to leverage Federal grants for planning and capital improvements (infrastructure and rolling stock) and to provide ongoing operating support for new service.

Various new Federal funding programs for passenger rail have been authorized in the past 12 months and further appropriations for passenger rail are expected in the 2010 fiscal year and beyond. These programs include:

- American Recovery and Reinvestment Act (ARRA) of 2009 Discretionary Multimodal program, providing $1.5 billion for passenger rail improvements;
- ARRA High-Speed Rail program, allocating $8 billion for projects with environmental clearance, corridor planning, and state rail planning;
- Intercity Passenger Rail Improvements (IPR), providing $90 million to augment ARRA and fund corridor and state rail planning;
- Passenger Rail Investment and Improvement Act (PRIIA) of 2008, which has allocated $1.9 billion to intercity passenger rail, $1.5 billion to high-speed rail, and $0.3 billion for congestion relief; and
- Rail Rehabilitation and Improvement Financing (RRIF) Loans, providing up to $35 billion for rail infrastructure capacity.

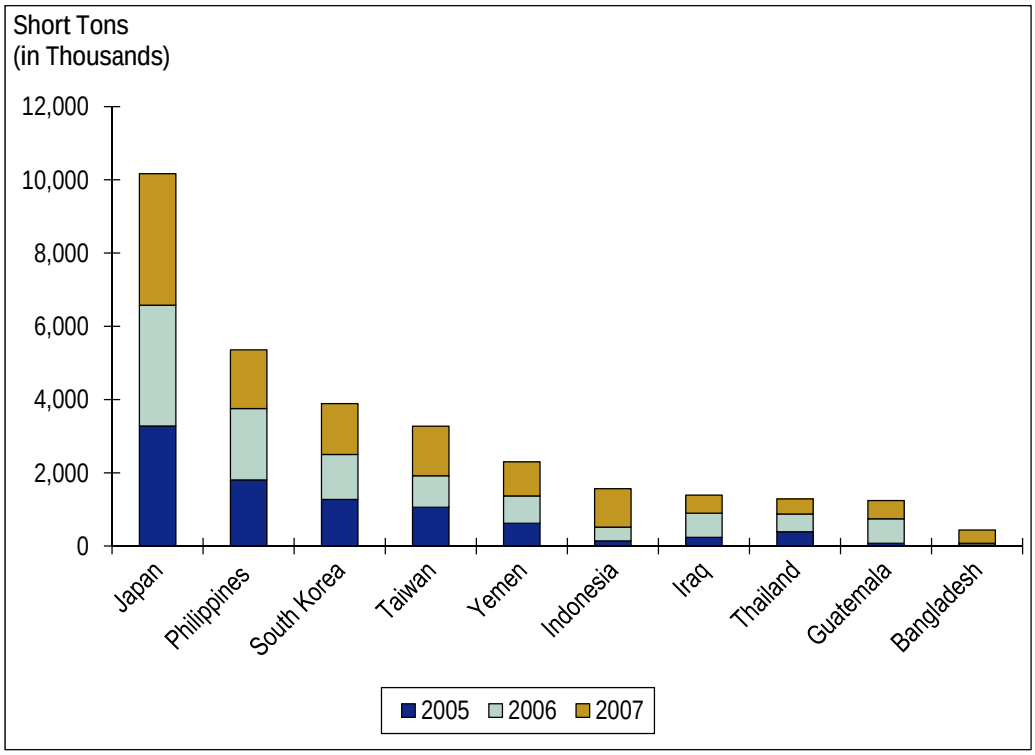
Additional provisions for passenger rail improvements may be included in the next Surface Transportation Authorization Bill.

GRAIN CAR CONSOLIDATION FACILITY IMPACT ANALYSIS

Grain shuttle facilities – large grain elevators designed to load 100 to 110-car trainloads quickly – are playing an increasingly important role in the distribution of Montana grain. Their emergence and increasing prominence represents a technological shift that affects Montana farmers, grain elevator operations, short-line and larger railroad operators, and the State's roadway system.

Wheat is Montana's primary international export, representing 31.64 percent of the State's export value in 2006. Pacific rim countries are the biggest consumers of Montana wheat, led by Japan, the Philippines, South Korea, and Taiwan, illustrated in Figure ES.5.

Figure ES.5 Wheat Exports from Pacific Northwest Ports
2005 to 2007



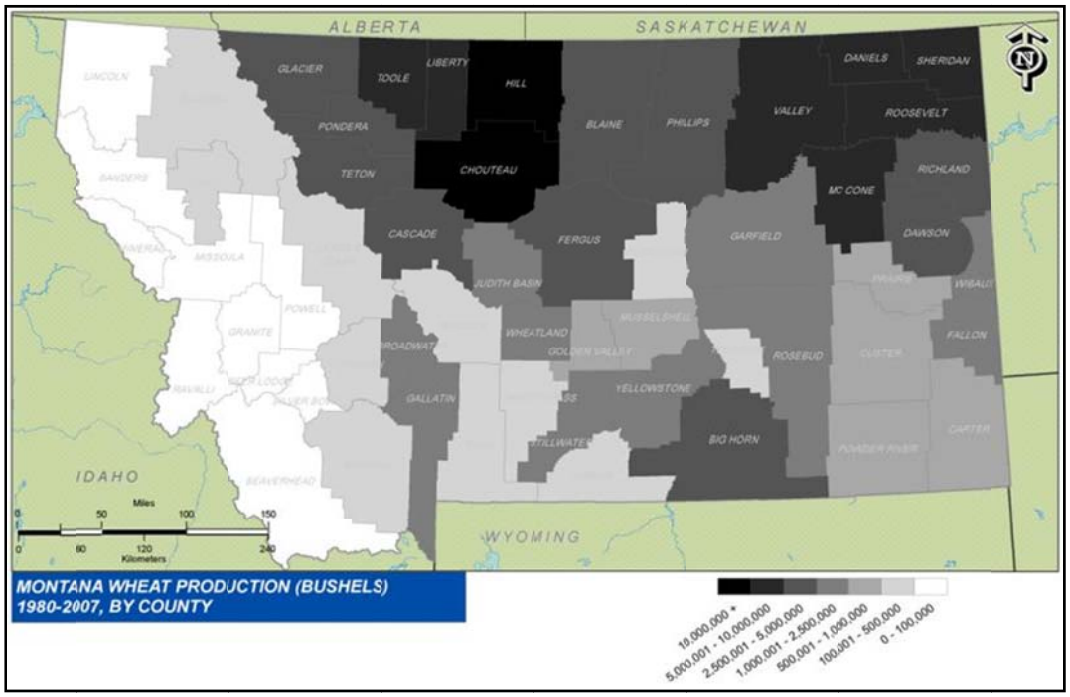
Source: U.S. Department of Commerce, Bureau of the Census, World Trade Atlas.

Figure ES.6 shows the counties in Montana that produce the most wheat.

Historically, Montana producers relied upon smaller, local elevators, which provided train service in 52-car units, 26-car, or fewer. The increasing prevalence of larger, more centralized grain shuttle facilities represents a substantial shift in transportation demand for the regional economy of northern and eastern Montana. There are 15 of these facilities in Montana, each estimated to cost around $4 million apiece to construct. Unit train movements of grain from shuttle facilities to port elevators offer faster transit times and quicker turnaround of grain cars, economies of scale that benefit railroads and the shuttle facilities. The growing market share for these larger facilities has led to a reduction in the number of grain elevators available for grain producers, from a total of 189 elevators in 1984 to 121 elevators by 2006.

Wheat producers nearer shuttle facilities may receive more reliable rail service and may benefit from product prices that reflect the exporters' lower rail transportation costs. However, other producers must travel further to reach shuttle facilities, and they tend to use larger trucks to do so, which increases their transportation costs. The combination of heavier trucks over longer distances is expected to accelerate maintenance needs of roadways, some of which may need to be redesigned to accommodate the needs of larger trucks.

Figure ES.6 Wheat Production by County
1980 to 2007



Source: Cambridge Systematics analysis of data from the National Agricultural Statistics Service, U.S. Department of Agriculture, downloaded from http://www.nass.usda.gov/QuickStats/Create_County_Indv.jsp.

While the railroads and export shippers (who own many of the shuttle facilities and the port loading facilities in the Pacific Northwest) appear to be reaping the financial benefits of the efficiency improvements grain shuttle facilities provide, transportation costs are shifting to farm producers in the form of higher transportation costs and higher costs to governments to maintain roadway networks. These trends are indicated in data collected in the Montana Rail Grain Transportation Surveys produced for the Montana Wheat and Barley Committee in cooperation with MDT.

Over the long term from a statewide perspective, potentially negative effects to producers, independent elevators, and short-lines are somewhat offset by positive impacts for rail and elevator operators, benefits that could move downstream to producers in the form of better prices and services, better market access and greater regional competitiveness.

PUBLIC RAIL FUNDING PROGRAMS

In the 1970s, rail planning became a requirement of states wishing to participate in the Local Rail Service Assistance program, a Federal rail financing program. In 1989, the Federal Railroad Administration (FRA) updated the program and renamed it the Local Railroad Financing Assistance (LRFA) program. Federal appropriations to the program stopped in 1995, and states continued to make grants and loans for rail-related projects under Federal oversight. Under these programs, between 1979 and 2008, Montana made a total of $11,112,682 in grants and loans for rail improvements.

In 2005, the Montana Essential Freight Rail Act established in state law guidelines for the Montana Essential Rail Freight Loan Program. The program is a revolving loan fund administered by MDT to encourage projects for construction, reconstruction, or rehabilitation of railroads and related facilities in the State. Although the program enables bonding and includes statutory authority of up to $2 million annually, no additional funds have been budgeted for the program to date. The MRFL fund currently has a balance of about $1.14 million, comprised of repayments from previous Federal loans.

Various other Federal programs provide financial support for rail improvements. Federal support to states go to safety improvements for road-rail crossings through the Highway Safety Improvement Program (HSIP), which became a core Federal-aid funding program with the passage in 2005 of the Federal transportation reauthorization bill, SAFETEA-LU. Federal funds for grade crossing protection devices have been a feature of Federal highway funding programs for decades, and are distributed to states on a formula basis.

In October 2008, Congress enacted legislation, the Rail Safety Improvement Act of 2008 and the Passenger Rail Investment and Improvement Act (PRIIA) of 2008 (Federal passenger rail investment programs are described in more detail in the Passenger Rail section). The safety provisions do not authorize the scale of Federal investments included in PRIIA, but two authorized grant programs may provide opportunities for Montana. Also, the Rail Rehabilitation and Improvement Financing (RRIF) program provides loans and credit assistance to both public and private sponsors of rail and intermodal projects. RRIF funding may be used to acquire, improve, establish, or rehabilitate intermodal rail equipment or facilities, and is a good match for Montana rail carriers and shippers with projects with revenue potential for loan repayments.

MONTANA RAIL ISSUES

Limited rail competition in Montana provides shippers with few competitive options to moderate rail rates, car availability, or services. However, a 2004 rail competition study by R.L. Banks & Associates found that limited rail competition is only one of several other factors contributing to the dual problems of high

rates and limited service for general freight, agriculture, and intermodal rail shippers in Montana.[12] Other factors in Montana include:

- Relatively small transportation market;
- Geographic position and distance from the more robust West Coast and Midwest markets;
- Staggers Rail Act emphasis on financial health of the railroads, and interpretation of that law by the Interstate Commerce Commission (ICC) and its successor entity the Surface Transportation Board (STB); and
- Limited transportation options in Montana other than rail (distance to barge option and long trucking distances).

Since three of these four factors lie beyond the influence of public policy, much of the efforts of Montana shippers and elected officials to expand service or reduce rail rates have focused on legal remedies through new laws at the Federal level or changing interpretation of laws by Federal regulators. These new laws include changes to economic regulation procedures by the Surface Transportation Board, and changes to Federal antitrust laws to change some railroad practices that may offer rate relief or access to competitive rail service.

In 2005, the Montana Legislature created the Rail Service Competition Council and charged it to promote rail service competition, reevaluate the State's railroad taxation practices, and perform various coordination efforts to increase competitive options for smaller shippers. The 2009 Railroad Rate Report prepared by the State Attorney General's Office found that Montana shippers continue to be charged high rates compared to other wheat producing states, pay excessive fuel surcharges, and receive inadequate services, such as fewer grain elevators, poor car availability, and poor shipment timing.[13] Recent private initiatives include a rate arbitration agreement between BNSF and the Montana Wheat and Barley Commission.

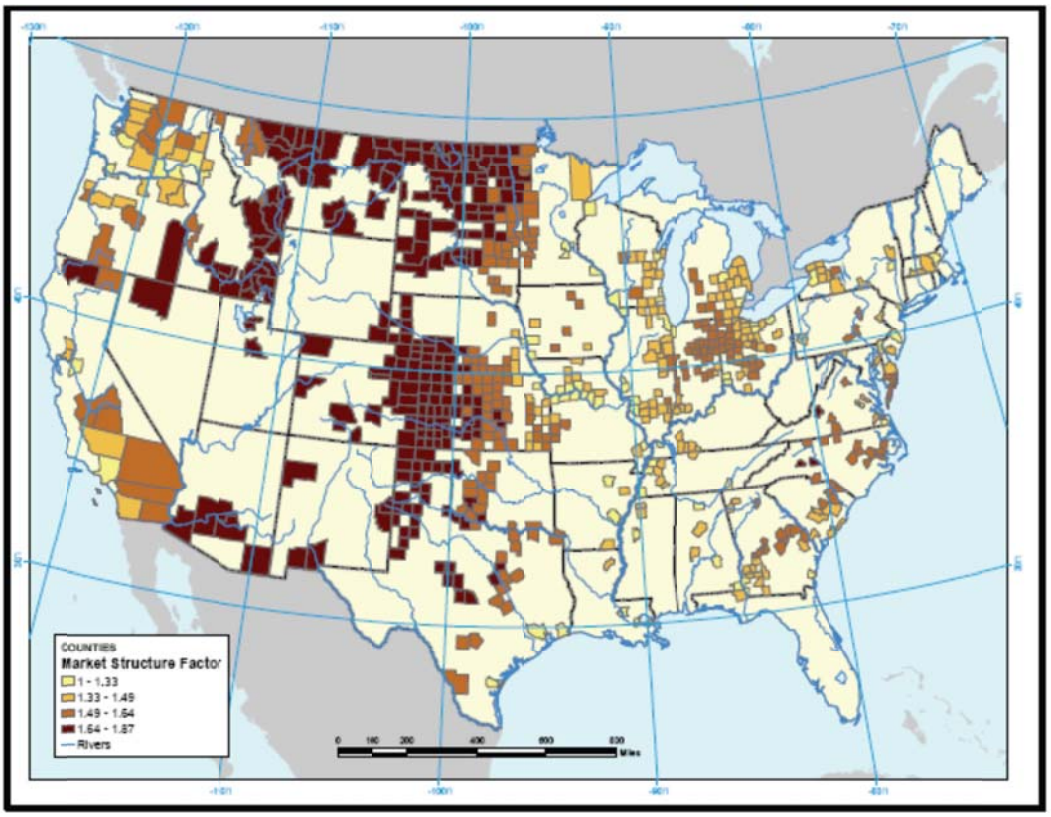
The balancing act for railroads, shippers, and policy-makers is in the difference between rates that are "reasonable" and rates that are "fair." Rate fairness would give shippers similar rates for similar shipments, while rate reasonableness could allow railroads to set rates by considering fixed network costs and competitive options available to shippers, subject to some upper limit on how much the rate exceeds marginal costs. According to new Federal studies of rail competition, potential changes in the regulation of railroad rate-setting practices might benefit shippers of larger quantities of homogenous products whose quantities and

[12] R.L. Banks & Associates. *Rail Freight Competition Study as Provided by Montana Senate Bill 315*, October 29, 2004, page ES-2.

[13] Cutler, John, et al. *Railroad Rates and Services Provided to Montana Shippers: A Report Prepared for the State of Montana*, prepared by the State Attorney General's Office, February 2009.

frequencies of carloads would attract service rather than smaller shippers. Those same competition studies still report that Montana is an area of the country with relatively higher rail rates because of limited modal alternatives and limited rail competition, and longer shipment distances. This shows both in rate measures such as the ratio of Revenue over Variable Costs (R/VC) and in correlations between market structure factors limiting competition and wheat pricing models (shown in Figure ES.7). The new Federal competition study admits that there are markets – geographic and commodity – for which additional regulatory attention may be needed to offer reviews of rate reasonableness.

Figure ES.7 County-Level Effects of Market Structure Variables in Wheat Pricing Models on Real Revenue per Ton-Mile



Source: Figure ES.4, 2008 Christensen Study, page ES-14.

MDT also studied the potential for new intermodal shipment points in the State, as Montana only has one intermodal terminal, in Billings on the BNSF. Montana shippers contacted in surveys reported that they were interested in new intermodal service. Fifty-nine percent of those surveyed stated that they would use intermodal services for export movements, and 52 percent of those surveyed reported that they would use intermodal services even if offered less than daily. However, studies of possible intermodal container volumes supported by

Montana economic activity indicated an insufficient amount of container activity to support another intermodal terminal.

Another issue discussed is possible public support for private rail infrastructure investment. Unlike most other modes of freight transport, railroads are largely responsible for the substantial capital investments necessary to maintain and expand their operations. A study released by the Association of American Railroads in 2007 provided a comprehensive evaluation of long-term capacity needs along major freight rail corridors. Without recommended infrastructure improvements to accommodate the expected increase in overall national freight traffic by the year 2035, the study indicates that several of Montana's primary main lines could potentially be above capacity. These congested lines in Montana are a result of the increase in overall national freight traffic expected by the year 2035, and are not a short-term projection of rail system congestion. The current economic downturn, and decrease in both rail and highway shipping may affect the pace of overall freight volume growth. In the long term, overall freight expansion will resume and strain the national rail network. With expected growth, Montana rail lines will experience significant congestion unless railroad capital spending expands system capacity. The AAR report suggests that meeting such capital investment needs will require some form of matching public financial assistance.[14]

A number of major issues also could affect railroad transportation in Montana:

- New Federal surface transportation program authorization could expand funding and flexibility for states to fund freight rail improvements or allow incentives for railroads to expand capacity to meet goods movement trends;
- New Federal climate change or environmental laws could lead to modal shifts of freight from truck to rail, and could impact long-term prospects for some rail commodities such as coal; and
- New Federal energy policy could affect the rail locomotive fleet, or changes in fuel prices could lead to long-term changes in goods movement away from a global sourcing economy and accompanying lengths of movements by rail and truck.

[14] American Association of Railroads, *National Rail Freight Infrastructure Capacity and Investment Study*, September 2007.