

**Rail Service Competition Council (RSCC)  
Meeting Minutes**

March 6, 2019

MDT Commission Room  
2701 Prospect Avenue  
Helena, MT 59624

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**RSCC Members Present**

- Jerry Jimison, Chair
- Kathy Fasso (by phone)
- Craig Gilchrist
- Vu Pham

**Other Attendees**

- Matt Jones, BNSF Railway (BNSF)
- Maia LaSalle, BNSF
- Eric Gatlin, BNSF
- Ross Lane, Montana Rail Link (MRL)
- Kraig McLeod, Montana Department of Transportation (MDT)
- Katy Callon, MDT
- Deidra Kloberdanz, MDT
- Zach Coccoli, Montana Department of Agriculture
- Amanda Casey, Senator Jon Tester's office (by phone)
- Jesse Anderson, Senator Jon Tester's office
- Mary Vandenbosch, RSCC Administrative Support

**Call to Order, Introductions**

Chairman Jimison called the meeting to order at 10:03 a.m. All participants were introduced.

**Approval of Minutes**

Motion by Craig Gilchrist, seconded by Vu Pham, to approve the minutes of the November 8, 2018 RSCC meeting, as written. The motion was carried unanimously.

**Financial Report**

Kraig McLeod presented the "Rail Service Competition Council Financial Report as of February 28, 2019" (State Fiscal Year 2019). The budget for FY 2019 is \$31,041. The balance after expenditures is approximately \$25,000. Motion by Vu Pham, seconded by Craig Gilchrist, to accept the financial report. The motion was carried unanimously.

## **RSCC Statutory Authority**

Kraig McLeod reported that HB 59 – the bill repealing the statutory authority for the Rail Service Competition Council –has been approved by the Montana Legislature and signed by the Governor. The law becomes effective on July 1, 2019.

Chairman Jimison reviewed the history of the RSCC and its efforts to facilitate conversations between shippers and railroads. He expressed his appreciation for all that he has learned through the RSCC.

## **Montana Essential Freight Rail Loan (MEFRL) Program**

Kraig McLeod distributed a handout entitled “Frequently Asked Questions: Montana Freight Rail Loan Program.” McLeod explained that the RSCC is charged with providing advice and recommendations to the MDT on the department’s activities related to this program.

Kathy Fasso reviewed the current operations at the Port of Montana and described the project for which the Port is seeking loan funds. The Port of Montana is a transloading facility that provides access to rail service via Union Pacific and BNSF railroads. The port is a foreign trade zone, which provides an opportunity to reduce costs associated with imports and exports. The Port is working in partnership with the Montana Connections Business Development Park.

The Port of Montana is seeking a \$400,000 loan from the MEFRL program for Phase 1 of the expansion. Phase 1 entails rail realignment and the addition of 4,903 track feet of rail. The tracks will be set wide enough to allow trucks to move in between tracks for transloading. The Port proposes to contribute \$410,000 in matching funds and to obtain approximately \$1.2 million coming from other funding sources.

Kraig McLeod explained he anticipated the Port of Montana application would be submitted in the next week or so. The MDT will consult with other state agencies before the application is submitted to the Montana Transportation Commission. The Commission has final decision-making authority regarding the application. Kathy Fasso stated that the Port’s goal is to break ground on Phase 1 of the project in late summer 2019.

## **Rail Service Reports**

### **Montana Rail Link**

Ross Lane reported that he is now the Chief Communications Officer for Montana Rail Link. This is a new position. Stacy Posey – formerly vice president of operations – is now serving as president of the railroad.

In 2018, MRL moved the highest volume of all time. The railroad is currently moving an average of 23 trains per day. They project that business will continue to be good in 2019. Montana Rail Link met its train per day goals this winter, in spite of significant impacts of winter weather on

MRL operations. The company employs 1,200 people and expects to hire in excess of attrition this year. They are implementing the largest capital plan in MRL's history, which includes a new siding in Garrison.

Montana Rail Link has begun installing Positive Train Control (PTC) technology. The railroad is the only Class II railroad that is voluntarily implementing PTC.

Soybeans are not being shipped by rail due to tariffs; to some extent, corn has filled in the void left by soybeans.

A final report has not been issued on the derailment between Livingston and Bozeman. Trains were moving 36 hours after the incident.

### **BNSF Railway**

Matt Jones reported that extreme winter weather has impacted operations in much of the network, including Montana. For example, train velocity was down 12% in the previous week in comparison with the same week in 2018. The railroad has spent several billion dollars improving capacity on the northern corridor since 2014. These investments have helped to mitigate the impacts of severe winter weather.

Jones reported the following statistics for BNSF for 2018:

- Invested \$155 million dollars in capital improvements in Montana.
- Volumes increased 4% year-over-year.
- Industrial products increased 9%.
- Transport of coal remained flat.
- Consumer products accounted for more than half of the total volume.

The railroad has been offering new service from Seattle and Portland to Alliance, Texas. This started out as intermodal service; mixed freight has now been added.

Jones reported that the U.S. Coast Guard has issued a draft environmental assessment (EA) for the Sandpoint Connector Project. The public comment period closes on March 25. The Coast Guard concluded in the draft EA that freight rail traffic through the area is driven by the demand for freight rail services and not by an additional bridge.

Maia LaSalle reported that agricultural product volumes shipped increased 9% year-over-year in 2018. The increase in shipping volumes was primarily due to corn shipments.

Eric Gatlin discussed tariffs imposed by India and their impact on pulse crop shipments. While the pet food industry is a growing domestic market for pulse crops, new domestic markets are not filling the void created by India's tariffs. Pulse crop farmers in Canada are slashing acreage planted in pulse crops by 35-50 percent.

Gatlin noted there is minimal movement of soybeans due to tariffs imposed by China.

## **Rail Line Abandonment**

Matt Jones and Ross Lane stated that no rail line abandonments that would affect shippers or potential shippers are being proposed. Jones explained that BNSF is going through the abandonment process for a short section of rail line in Kalispell. The city requested the abandonment to revitalize the downtown area. Customers are moving to a rail-served industrial park north of Kalispell.

Jones emphasized the distinction between rail lines that are abandoned and out of service. Track can be taken out of service and rails and ties removed without abandoning the right of way. The line between Helena and Great Falls is an example of a rail line that is not abandoned. Ross Lane stated that MRL's line between Missoula and Darby is not abandoned; MRL does not currently have customers to serve on that line.

Chairman Jimison asked about removal of abandoned grain elevators. Matt Jones explained that, at the request of local officials, BNSF has removed elevators abandoned on BNSF property. However, sometimes there are competing interests between those who want an elevator torn down and those who want to preserve the same elevator.

## **Economic Development**

Matt Jones reviewed the locations of Montana business parks with rail-served businesses: Port of Montana near Butte, Shelby, Libby, Great Falls, and Kalispell. Some have transloading services. There are no intermodal loading or unloading facilities in Montana.

Eric Gatlin stated that Pardue Grain in Cut Bank is shipping grain by rail in single cars.

Vu Pham announced that the Yellowstone County Commissioners have created the Lockwood Targeted Economic Development District (TEDD). Pham shared the Annual Work Plan for the Lockwood Targeted Economic Development District (January 2019-December 2019).

There are currently two rail-served businesses in the Lockwood TEDD. Montana Rail Link provides rail service in this area. In fall 2019, MDT will break ground on the Billings Bypass, a bridge over the Yellowstone River connecting Billings Heights to Johnson Lane, the location of the largest truck stop in Montana.

## **Agricultural Shipping**

### **Transport of Barley to Mexico**

Eric Gatlin explained that current demand from Mexico is for malted barley rather than unmalted barley. Constellation Brands has a large facility in Nava, Mexico that purchases malt. There are only two malting facilities in Montana, one in Great Falls and the new facility at the Port of Montana. Malt is being successfully exported to Mexico from the Great Falls facility.

There are entities looking at malting in Mexico using imported barley. Gatlin thinks there may be long-term opportunities for shipping barley direct to malting facilities in Mexico.

## **Subcommittee Report**

Subcommittee chairman Eric Doheny submitted the following report:

- Grain and pulse crops have been moving quite slowly during the past six weeks or so due to inclement weather. By the time a farmer gets equipment running and yards and roads plowed out, there is little time left in the day to be productive.
- Shelby's rail extension to the east of town (extends about two miles) is being developed quickly, mostly with agribusinesses shipping a variety of commodities via single rail car. Doheny is very impressed with the expansion and the agricultural industry's apparent need for the expansion. There are also some nonagricultural shippers. For example, Pacific Steel and Recycling is using the same rail to ship singles of scrap iron.
- Fuel shipments to Dutton by rail have been brisk due to the "brisk weather." Fuels for auto and home heating – diesel and propane – are moving quickly and steadily.
- Forecasts are bearish – bleak at best – for pulse crops for the 2019 crop year.
- The U.S. Department of Agriculture (USDA) just came out with a bearish winter wheat forecast for the 2019 year.
- Fertilizer shipments by rail have all but stopped until the weather breaks and farmers can get back out to the fields to apply it.
- The number of bankruptcies and delinquent loans in the agricultural industry are beginning to rival levels in the 1980's, which were the worst farming years in the last sixty years.
- Trade "conflict" is hurting agriculture.

## **Discussion**

Zach Coccoli agreed that all indications point to another tough year for agricultural business overall. Wheat prices are low due to global oversupply. The U.S. Department of Agriculture (USDA) pulse crop insurance prices are lower than last year's.

Jesse Anderson reported that Senator Jon Tester has held at least three listening sessions with agricultural producers, who have expressed concerns about trade. The Farm Bill will provide some certainty going forward.

Chairman Jimison expressed his concern that agriculture is the top economic driver for Montana. If the agricultural industry suffers, then railroads and other businesses suffer.

There was some discussion of the potential for shipping hemp and products manufactured from hemp. Eric Gatlin explained that BNSF does not ship hemp; it is a prohibited product. Issues

with shipping hemp include unclear federal guidelines, the need to distinguish between various commodities, and barriers to transporting hemp between the U.S. and Canada. A better definition of the market and federal guidelines will be needed to ship hemp.

Zach Coccoli stated that the Montana Department of Agriculture (MDA) has established a Hemp Advisory Committee to advise the department. He explained that there is a lot of uncertainty regarding the regulation of hemp and products derived from hemp, including cannabidiol (CBD). The MDA continues to seek better guidance from the federal government. The National Association of State Departments of Agriculture issued a statement requesting regulatory guidance from the USDA. The USDA has announced that the agency will not approve hemp growing plans in 2019; therefore, Montana will not have a federally approved growing plan this year. The MDA continues to work on developing testing protocols to distinguish hemp from cannabis sativa with higher levels of tetrahydrocannabinol (THC).

### **Montana Pulse Crop Loading Facilities**

Committee members were provided with maps showing grain and pulse crop facilities in Montana and pulse crop delivery points in Montana. Eric Gatlin explained that BNSF does not have a certified program for pulse crops; these crops can be shipped from any grain terminal.

Maia LaSalle stated that BNSF has transported 100-car unit trains of yellow peas in the past, before India imposed significant tariffs. Eric Gatlin explained that India imposed tariffs of 40-60% to protect their farmers.

### **Energy Shipping**

Subcommittee Chairman Craig Gilchrist reported that petroleum shipping is steady and the BNSF shuttle service for frack sands is going well. No concerns have been raised about transportation of liquefied petroleum gas. He stated that transportation of coal is key to Montana's economy. He noted that NorthWestern Energy released a power plan that emphasizes natural gas for new capacity. Michael Bloomberg is heading a campaign to promote retiring all coal-fired generating plants in the U.S. Gilchrist also distributed HJ 4, a resolution under consideration by the Montana Legislature. The resolution requests that the federal government take action to protect interstate and foreign commerce and Montana's right to export coal.

### **Next RSCC Meeting**

Chairman Jimison proposed that the RSCC hold a final meeting in June, beginning at 1 or 2 p.m., and adjourning by 5 p.m. He proposed that the meeting be followed by a dinner. Jimison suggested that the Governor, Lieutenant Governor, cabinet heads, legislators, and representatives of all railroads be invited. He requested that Mary Vandenbosch poll members about their availability in June. Craig Gilchrist agreed that this was a good idea; however, he will be out of town for all of June except for the last week.

### **Public Comment**

Ross Lane emphasized that participants may reach out to the railroads at any time with their questions and concerns.

### **Adjournment**

Chairman Jimison adjourned the meeting at 2:06 p.m.