

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

**June 9, 2016
Helena, Montana**

RSCC Members Present:

- Mayor Jerry Jimison, Chairman
- Commissioner John Grewell
- Eric Doheny
- Todd O'Hair
- Mike Kadas, Director, Department of Revenue
- Mike Tooley, Director, Department of Transportation
- Ron de Yong, Director, Department of Agriculture
- Senator Tom Facey
- Representative Mike Lang

Other Attendees:

- Diane Myers, Montana Department of Transportation (MDT)
- Matt Jones, BNSF Railway (BNSF)
- Maia LaSalle, BNSF Railway (BNSF)
- Collin Waters, Montana Department of Agriculture
- Ben Tiller, Montana Department of Agriculture
- Mike O'Hara
- Robin Arnold, Public Service Commission Analyst
- Melissa Shannon, Strategies 360
- Blair Fjeseth, Strategies 360
- John Althof, Montana Department of Transportation

Call To Order, Introductions

Chairman Jerry Jimison called the meeting to order and attendees introduced themselves. Matt Jones is the new BNSF Director of State Government Affairs and is replacing Barb Ranf. Ross Lang was selected to replace Matt as BNSF Public Affairs Director.

Approval of February 10, 2016 RSCC Meeting Minutes

Todd O'Hair offered a motion to approve the February 10, 2016, minutes as presented. Eric Doheny seconded the motion. The motion carried by unanimous voice vote.

Financial Report – Diane Myers

The budget for state fiscal year 2016 was \$32,382. \$10,398 was spent on the West Coast Ports study. Remaining budget at state fiscal year end is expected to be approximately \$17,000.

Public Comment

Chairman Jerry Jimison called for public comment. No public comments were made.

Montana Department of Transportation (MDT) Update - Diane Myers

Chris Dorrington has taken a position at the Department of Environmental Quality as the Air, Energy and Mining Administrator.

In June the Governor's Office appointed Dylan Boyle as a new RSCC member. This was per a Montana Code Annotated (MCA) change passed during the 2015 Legislative session that added an expert in passenger rail to the council. Dylan is the Executive Director of the Whitefish Convention and Visitors Bureau.

FAST Act: The FAST (Fixing America's Surface Transportation) Act is a transportation bill passed by Congress last year. The 1,300+ page 5-year bill provides slight funding increases for Montana. It's the first long-term transportation bill passed in over a decade and provides MDT with a more predictable funding source. The bill retains much of the existing program structure and includes the addition of a new freight program. MDT will be developing a corresponding state freight plan and will be involving stakeholders including the RSCC.

Freight Plan: The goals of the national freight program are to:

- improve safety, efficiency and reliability of the movement of freight and people;
- generate national or regional economic benefits and increase global competitiveness of the United States;
- reduce highway congestion and bottlenecks;
- improve connectivity between modes of freight transportation;
- enhance resiliency of critical highway infrastructure and help protect the environment;
- improve roadways vital to national energy security; and
- address the impact of population growth on the movement of people and freight.

MDT is commenting on federal rules proposed regarding national performance measures and working through requirements. The Agency is also beginning work on the Montana Freight Plan, which has a December 2017 deadline.

TranPlanMT:

MDT recently launched an update to Montana's statewide long-range transportation plan, TranPlanMT. TranPlanMT is an update of TranPlan 21. It defines the policy direction for operating, preserving, and improving Montana's transportation system over the next 20 years. TranPlanMT serves as the basis for MDT decisions, especially those related to investing Montana's limited transportation funds. Melissa Shannon previously emailed Council members and interested parties a link to the public involvement survey. Diane encouraged everyone to

take the survey and share the link with family, friends and co-workers.

Representative Mike Lang asked if this was just a "feel good" survey and questioned the actual value added.

Director Tooley responded, stating that the survey is a way for the team at MDT to assess high-level public priorities and understand public opinion regarding transportation needs. The survey allows MDT to consider public and stakeholder wants when prioritizing funding.

Todd O'Hair noted that in most cases funding sources are separate for bridges and roads as compared to bike and pedestrian.

MCOM II (Multi-State Corridor Operations Management): The Great Northern Corridor Coalition is a multi-state cooperative comprised of eight State Departments of Transportation (DOT), numerous ports, BNSF Railway and others interested in freight movement between the Pacific Northwest and the Great Lakes. The corridor runs through the states of Oregon, Washington, Idaho, Montana, North Dakota, Minnesota, Illinois and Wisconsin. The Coalition's primary purpose is to promote regional cooperation, planning, and shared project implementation for programs and projects to improve multimodal transportation system management and operations along the corridor. Diane highlighted that the project considers all freight modes, including rail, truck and water.

In 2012, MDT was awarded a MCOM grant for the development of corridor goals and objectives. The Coalition created a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis that identified opportunities to improve the technology, operations, and infrastructure of the Great Northern Corridor. The SWOT analysis was Phase I and in 2013 MDT received a second MCOM grant for Phase II.

Phase II is based on the finding in the first study. Work is underway to establish a model for a sustainable coalition. More analysis is being conducted on areas that have an impact on efficient freight movement, including border freight analysis and highway freight flow analysis. Rail grade crossing safety and mobility, corridor-wide environmental planning, and a unified corridor investment strategy are also being explored. The scope includes analysis and strategies for the coalition to be competitive for funding on projects that are multi-jurisdictional.

Phase II is expected to be completed in July.

Rail Grade Separation Study: MDT recently completed the Rail Grade Separation Study (RGSS). It was an update to the 2003 RGSS commissioned to address changing conditions and assess highway-rail crossings across the state. The study used a data-driven methodology to objectively rank public railroad crossings, both separated and at-grade, using factors such as

vehicular volumes, train volumes, and community mobility. Ten at-grade crossings were selected for further analysis, which included site visits, recommended separation configurations, conceptual plans, benefit-cost analyses, and planning-level cost estimates. Project selection for construction, funding types and availability, and prioritization were outside the scope of the study.

At-grade crossings selected for proposed separation alternatives were:

Belgrade – Jackrabbit Lane (underpass)

Billings – 27th Street (partial overpass and partial underpass), Moore Lane (underpass)

Bozeman – Griffin Drive (underpass), Rouse (underpass)

Helena – Benton (overpass and underpass), Carter (underpass), Montana (underpass)

Huntley – Northern Ave (overpass)

Laurel – S 72nd St W (overpass)

Commissioner Grewell asked if studies done by the federal government in the Billings area were reviewed and incorporated into the report. Diane responded that the study methodology did not involve reviewing the federal study or polling the public or stakeholder groups. The report utilized a data-driven approach that considered vehicular and train traffic, among other factors.

Todd O’Hair asked about the plan for the study. Diane Myers responded that the study was an informational planning document to be used by MDT, the public and local governments. Representative Lang inquired about who will use this survey. Diane Myers replied MDT, local governments and the public have access to this document. The purpose of the study is to inform decision makers as to general costs, construction options and feasibility of proposed crossing improvements. The study can be accessed by searching for “rail grade separation study” at mt.gov.

West Coast Ports Study: At the June 18, 2015 meeting, the RSCC voted to hire a consultant to study challenges at west coast ports, especially as related to shipping pulse crops. A main purpose of the study was to recommend options for dealing with emerging issues resulting from the loss of container shipping from Portland. After reviewing the report from the consultant and spending many hours making corrections and rewriting most sections, MDT decided not to publish the study. Several factors were considered when making the decision, including a lack of data, report quality that did not meet MDT standards and a lack of timeliness (since the market has already responded and the situation continues to evolve).

RSCC Subcommittee Reports

Agricultural Subcommittee – Eric Doheny: Eric noted that the subcommittee had not met since the last council meeting and he has not heard complaints from producers regarding fertilizer delivery or dirty rail car issues as in the past. Elevators are able to get rail cars when needed and overall farmers are pretty happy with rail service.

Since February there hasn't been a lot of agriculture shipping movement. With recent rainfall there is the potential for a large grain crop this year. Eric expects lentils, peas and mustard freight to increase after harvest. He also noted Montana grain bins went from being about 1/2 full statewide to nearly empty within the last month.

Mike O'Hara mentioned agriculture is doing well and Montana continually produces high quality grain.

There was a discussion on where empty rail cars are going and Maia LaSalle noted that BNSF is moving a lot of empty grain cars to the Pacific Northwest, with some cars headed for the Midwest due to the upcoming harvest.

Energy Shipping Subcommittee – John Grewell: John noted the committee has not met since the last RSCC meeting in February. He said he hasn't noticed congestion on tracks, and that reductions in energy shipping are impacting the rail community. The industry is seeing lost revenue and job layoffs. John offered Todd the floor to talk about what he is seeing from the coal industry.

Todd noted the coal industry is rough right now. In 2016 Montana coal production is down 30% from last year. If this trend continues it will be the lowest coal production since 1983 and a \$30 million reduction in coal taxes paid to Montana. So far this year taxes paid by the coal industry to Montana are down \$7 million from last year.

Energy demand is down across the country due to 1) federal financial incentives for energy efficiency, 2) U.S. manufacturing being down since the 2008 recession, and 3) a mild recent winter.

The Army Core of Engineers rejected a proposed coal and grain terminal, which was a partnership between Cloud Peak Energy and the Crow Nation. The terminal was expected to produce 44 million tons of coal annually. A \$3.00 per ton tax would have resulted in \$120 million tax revenue.

Todd discussed policy changes encouraging the reduction of the carbon footprint in America that affect the coal and rail industries and the economy. He noted that other countries don't have similar policies. An example is South Korea, which is retiring ten 40-year-old coal-fired power plants and building new ones that will add 40 million tons of coal consumption. Decreased domestic coal consumption will be offset by increases in Asian markets.

Representative Lang asked if U.S. coal is cleaner than other coal mined in the world. Todd responded U.S. coal has lower sulfate content and produces more energy for the amount of coal burned. He added that currently Cloud Peak Energy exports no coal. The company is environmentally aware and focused on recapturing emissions. Worldwide, \$400 million will be spent by various companies on new air conditioners to be online in the next 10-15 years.

Chairman Jimison noted that the Bakken appears to be operating at high production still and asked Commissioner Grewell for an update. Commissioner Grewell responded that he has seen tank cars heading in and out and equipment seems to be sufficient.

Matt Jones from BNSF talked about the initiative to employ safer oil rail cars. BNSF is ahead of schedule on implementation and is storing new cars that have never been used. Supply of the new cars is up and demand is down. The company is no longer using legacy DOT-111 tank cars

Commissioner Grewell said Carbon County is attempting to build the largest wind plant in Montana with investors from England, although the project has not yet started. Wind farms do not employ many workers, and profits from the plant will go overseas.

Economic Development Subcommittee: The economic development subcommittee has not met and Kathy Fasso was not in attendance to give a report. Mike O'Hara stated that a new fertilizer plant is being built in Fort Benton and will service the area by truck, since rail service stops 5 miles outside of town. CHS Inc. is also building a facility nearby that will be serviced by rail.

Mike O'Hara noted that pulse crop production is up 50% in Montana and BNSF is ready to ship. End users dictate when the crops are pulled from bins. Unlike other products, pulse crop shipping quantities tend to trickle instead of being large quantities all at once.

Railroad Reports

BNSF – Matt Jones: Matt stated that rail traffic is down currently, with 16,000 miles of rail cars in storage nationwide with all rail carriers, not just BNSF. Nationwide coal shipments are down 30%. The industrial sector is still in a recession.

Train throughput is 22% faster than last year at this time. Efficiencies are up and BNSF has about 12,000 trains on the network each day.

In Montana BNSF is spending less money on expansion than last year, but the maintenance budget is nearly the same.

The agriculture fleet stored is approximately 8,900 hopper cars system-wide. BNSF has zero cars past due in Montana, and is bringing employees back from furlough for agriculture shipping.

Chairman Jimison asked about the cars sitting near Glendive, and Matt indicated that they could be sitting for any number of reasons – maintenance window, crew turnover, etc.

Commissioner Grewell asked if BNSF is maintaining their capital spending plan in Montana in light of the slowdown in the Bakken. Matt responded by saying BNSF has a \$4.2 billion capital plan for this year. The rails are in the best shape they have ever been in.

Director de Yong made the comment that he is appreciative of the infrastructure BNSF is developing and asked Matt if he thought agriculture rail prices would be increased to make up

for lost revenue in other sectors. Matt said BNSF must remain competitive. Consumer products are still 50% of BNSF's business, and agriculture alone won't bear system costs.

Matt mentioned that he believes rail freight will increase by 30-40% over the next 30 to 40 years.

Director de Yong asked if BNSF was going to start moving liquefied natural gas (LNG). Matt replied he was unaware of developments in this area.

Chairman Jimison asked if there are any other locomotive shops beside Glendive, Havre, Whitefish and Laurel. Matt answered stating they had just those four.

Chairman Jimison also asked about intermodal shipments, the recent 25 layoffs at BNSF in Glendive, and if the railroad planned to close any facilities in Montana. Matt responded that intermodal is down but not significantly, and that BNSF plans to reduce their divisions countrywide from 12 divisions to 10.

Union Pacific Update: Not Present

Montana Rail Link Update: Not Present

Central Montana Rail Update: Not Present

Public Service Commission (PSC) Rail Safety Investigative Docket Update – Robin Arnold:

The PSC requested to update the RSCC on the recent rail safety investigative docket. A Legislative Audit Committee identified a need for the PSC to take a more active role in rail safety within the state. The audit suggested a risk assessment plan was needed. The PSC held a round table meeting and invited key stakeholders to talk about risk concerns, the assessment and desired outcomes.

The Commission has funding for 2 rail inspectors, with 1 of the positions currently open. Inspectors spend approximately 80% of their time on rail activities and are trained by the Federal Rail Administration (FRA).

Due to limited funding the PSC is focusing on prevention of emergencies as opposed to responding to emergencies. The Commission is reaching out to railroads and other states to learn best practices.

Current activities have focused on the risk assessment outline. This will help determine what role the PSC will service in the future. If it is decided more rail inspectors are warranted funding will have to be approved via the Legislature. Work on the state risk assessment is being done in-house with current resources and is expected to be completed by November 2016.

Commissioner Grewell asked if the PSC checked to see ensure they were not duplicating work done by the FRA. Robin responded they are working to make sure this doesn't happen. She added the legislative audit committee felt the PSC was not active enough in rail safety, and encouraged Commission to send representatives to more meetings, such as the RSCC and the

State Emergency Response Commission (SERC). Matt Jones added that the legislative audit was not an audit of railroads.

Update on Washington DC Rail Service Committee – Ben Tiller: Ben Tiller asked to give the Council an update on his recent trip to the Surface Transportation Board (STB) and the North American Association of Rail Shippers meeting in Washington D.C. The trip was valuable and provided a perspective on the rail industry as a whole. Several of the speakers mentioned a lagging U.S. economy. Ben feels the Uniform Rail Costing System (URCS) will likely change in 2017. (Note: The URCS is the STB’s general purpose costing methodology used to estimate variable and total unit costs for class I railroads.) Ben encouraged meeting attendees to call or meet with the Office of Public Assistance, Governmental Affairs, and Compliance (OPAGAC). They are an informal arm of the STB and will provide candid answers to questions.

Director de Yong commented that railroads have a lot of data and asked if the United States is ever going to come up with a costing system that fits reality and is based on sound data. Tiller said data is available but it will take economists and computer algorithms to make it useful without exposing trade secrets.

Todd said 2016 is the first year that LNG-generated electricity will surpass coal-generated electricity. Todd said U.S. electricity capacity has decreased steadily. He added if the U.S. has a hot summer this year system limits may be pushed.

Eric asked about the rail rate tracker software. Ben said it is working and the Department of Agriculture is using it. Ron and Eric will look at the tracker for commodities rates and provide an update at the next RSCC meeting.

Next RSCC Meeting Date, Location, and Agenda Items: Matt Jones mentioned that the economy and markets are changing rapidly. He sees different issues every six months, so RSCC meetings provide valuable check-ins.

The next meeting will be at 10:00am on Tuesday, September 27th, 2016, in the MDT commission room

The meeting was adjourned at 1:28 pm.