

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

June 20, 2019

MDT Rail, Transit, and Planning Division
Conference Room A
2960 Prospect Avenue
Helena, MT 59624

RSCC Members Present

- Jerry Jimison, Chair
- Eric Doheny
- Vu Pham
- Sen. Frank Smith
- Director Mike Tooley

Other Attendees

- Matt Jones, BNSF Railway (BNSF)
- Lynn Zanto, Montana Department of Transportation (MDT)
- Zach Coccoli, Montana Department of Agriculture (MDA)
- Chris Christiaens, Montana Farmers Union
- Mary Vandenbosch, RSCC Administrative Support

Call to Order, Introductions

Chairman Jimison called the meeting to order at 1:40 p.m. All participants were introduced.

Approval of Minutes

Motion by Vu Pham, seconded by Eric Doheny, to approve the minutes of the March 6, 2019 RSCC meeting, as written. The motion was carried unanimously.

Financial Report

Lynn Zanto presented the “Rail Service Competition Council Financial Report as of May 31, 2019.” The balance after expenditures is approximately \$22,000. Motion by Director Tooley, seconded by Eric Doheny, to accept the financial report. The motion was carried unanimously.

Rail Service Reports

Montana Rail Link (MRL)

Ross Lane was unable to attend the meeting and submitted the following written report:

Chairman Jimison and members of the RSCC,

Overall: I regret I cannot be there for the final meeting of the RSCC. Overall, MRL does not have much new information to report from the last meeting. Volume remains quite strong across MRL, and we expect that trend to continue throughout 2019 and into 2020. Like all railroads, MRL is sensitive to national and global economic conditions. Flooding in the Midwest has resulted in lower than expected grain volume. Continued trade tensions have also contributed to lower than expected grain product volume across MRL.

Capital Plan: We are continuing to make progress in rolling out the largest Capital Expansion and Maintenance program in our history. This year's plan includes:

- New Siding at Bradley
- Turn on CTC and Extend Siding at Dixon
- Install new crossover at DeSmet
- Automated Blue Flag Project at Laurel, MT Terminal for train inspections
- Installation of CTC at Phosphate
- 160,000 new ties
- 25 Miles of New Rail, all CWR
- 225 miles of Surfacing
- Previous 5-year total was \$250 million

New Business: MRL is currently constructing a new petroleum product transload facility in Stillwater County. At full capacity, the facility will be able to handle up to 24 trucks per day. The facility will feature a state-of-the-art environmental containment system. We expect the new facility to open in late summer or early fall.

Safety: At the end of May, MRL had the lowest injury frequency ratio among the nations eight largest railroads.

Positive Train Control: Earlier this year, MRL began the process of voluntarily installing the necessary technology and infrastructure for Positive Train Control.

Continued Communications: MRL is committed to continued communication with elected officials and customers regarding rail service in the state of Montana. We remain steadfast in our commitment to providing world class transportation services to our customers. Safety is the most important thing we do at MRL, and we're dedicated to continued investment in our infrastructure to make sure we not only remain the most fuel-efficient mode of transportation in Montana, but also the safest.

BNSF Railway

Matt Jones reported that safety continues to be a top priority for the railroad. Personal injury incidents have declined to less than one per 200,000 employee hours. The severity of incidents has also been significantly reduced.

The railroad is experiencing significant operational challenges due to flooding in the Midwest. The flooding also has impacted the operations of BNSF's customers. For example, only 83% of U.S. corn acreage has been planted, in comparison with the 5-year average of 99%. Volumes transported by the railroad have decreased significantly in comparison with the previous year. Volumes have increased for only 8 of 22 commodity groups.

Jones reviewed trends over the past two decades. The most significant changes between 2000 and 2018 are significant reductions in coal shipments and increases in consumer products. Intermodal transportation has increased significantly, from 41% of BNSF's business to 50% over the same time frame.

BNSF is investing \$3.6 billion in its 2019 capital plan. The railroad has invested more than \$3 billion in capital improvements each year since 2011. The railroad continues to work on permitting for construction of a second bridge at Sand Point. The lawsuit challenging the permit granted by Idaho Department of Lands was dismissed.

Jones discussed precision scheduled railroading (PSR). Every Class I railroad has adopted this system except BNSF. BNSF agrees with the goals of PSR: using manpower and equipment efficiently. However, BNSF has a different approach to achieving these goals. For example, BNSF has a highly efficient shuttle network for various commodities; PSR focuses on searching for back haul opportunities.

Jones identified opportunities and risks for freight rail. Opportunities include:

- transportation between the U.S. and Mexico and Canada;
- converting truck freight to rail;
- technology improvements, including hybrid batteries for locomotives;
- improved efficiency using positive trail control;
- data and analytics to better maintain the network;
- increasing U.S. grain yields; and
- growth in shipping of plastics.

Risks for freight rail include:

- competition from other countries for grains;
- transportation of fuels via pipeline;
- declining coal shipments;
- inconsistent state regulations; and
- the environmental permitting process.

In response to a question about crossing safety, Jones explained that there are a lot of accidents involving trespassers that do not occur at crossings. BNSF is hearing more complaints about occupied crossings. The Federal Railroad Administration has asked the railroads what they are doing to minimize blocked crossings. Jones also discussed efforts to avoid hitting grizzly bears.

Vu Pham noted that the trend in the trucking industry is a move to a last mile in, last mile out model.

Participants also discussed overpasses, underpasses and quiet zones in specific locations.

Agricultural Shipping

Subcommittee Report

Eric Doheny reported that delivery of fuel and fertilizer is going well and on time. Shuttle trains are on time.

Shipping pulse crops is a challenge. Shippers on Montana's Hi Line are having trouble getting singles. The cars are 20-25 days late and it takes more than a week to get a single car to Seattle. The cumulative effect of the late car and transport time is that pulse crops are not sold because shippers can't ensure the pulse crops will get to the ship on time. He expressed concern about the lack of incentive for the railroads to deliver singles on time. Matt Jones explained that the Surface Transportation Board regulates the issues with late trains that Doheny described.

Participants discussed adverse impacts of U.S. trade policies on international markets for agricultural commodities. The Asian swine flu is a significant issue in Asia, where more than 200 million pigs have been culled, resulting in reduced demand for soybeans to feed the pigs.

Doheny expressed interest in a transload facility for pulse crops at Shelby. Jones explained that BNSF monitors opportunities to implement a container business model; however, there isn't enough density to make this work for pulse crops. Zach Coccoli stated that Columbia Grains plans to open a facility in Plentywood soon.

Participants also reviewed issues related to production and marketing of industrial hemp that were discussed in detail at the March 6, 2019 RSCC meeting. Sen. Smith noted that South Dakota outlawed transportation of hemp.

Port of Montana Expansion

Mary Vandebosch relayed a report from the Port of Montana's General Manager, Kathy Fasso. The Port's goal is to break ground in fall of 2019. The Port is waiting for final approval from Union Pacific. Lynn Zanto reported that the Port submitted an application for a \$400,000 loan from the Montana Essential Freight Rail Loan Program. The MDT is working through any remaining questions with the Port. The application process is on track. Vandebosch noted that Fasso presented a detailed update on the project at the March 6, 2019 RSCC meeting.

Energy Shipping

Subcommittee Report

Chairman Craig Gilchrist submitted the following report:

Chairman Jimison and members of the committee:

I regret that, due to a previous commitment, I am unable to attend the last meeting of the RSCC. Before my report, allow me a point of personal privilege. I am proud to have been a member of this council and saddened by its demise. I firmly believe that this group has great asset to the rail shippers in Montana. I feel privileged to have met and worked with each and every one of you.

My report is as follows.

Petroleum products are for the most part seasonably stable. Having spoken with railroad employees I'm confident that there is no backlog of orders, either at the point of origin to delivery at the consignees. This includes crude and refined petroleum products. The use of shuttle service for delivery of the products necessary in hydraulic fracturing process is proving to be a success. Also, the delivery of other oil production products appears to be moving along smoothly as possible.

Unfortunately, the coal picture isn't as bright. I've been informed that recently more coal sets have entered storage status on the branch lines south of Forsyth. Recently a power plant in Minnesota announced that it was converting from coal to natural gas for its fuel source. Finally Cloud Peak energy has recently filed for bankruptcy.

Respectfully submitted

Craig Gilchrist

Discussion

Participants discussed strong international coal markets, declining U.S. markets, and coal loading facilities. Vu Pham noted that renewable portfolio standards that are being adopted by states will impact the U.S. market. Matt Jones stated that the Washington state legislature passed a law that prohibits transportation of crude oil at a pressure higher than 9 pounds per square inch (PSI). This is likely to result in a legal battle between North Dakota and Washington.

Public Comment

An opportunity for additional public comment was provided and, except as noted under discussion of agenda items, no additional comments were made.

Wrap Up of RSCC's Work

With this being the final meeting of the RSCC before repeal of the statutory authority becomes effective July 1, Chairman Jimison expressed his hope that discussions between railroads and shippers will continue.

Jimison reviewed the RSCC's statutory duties and stated that the RSCC had met or exceeded expectations for its duties.

Zach Coccoli stated that the MDA will continue to work with various agricultural groups to maintain relationships with railroads. The department will host meetings as needed and assist with advocating for agricultural producers with the Surface Transportation Board.

Matt Jones said that BNSF would be happy to host a meeting to touch base on rail service. Jones also offered to show BNSF facilities to interested groups.

MDT Director Mike Tooley conveyed Governor Bullock's appreciation for the RSCC members' time and effort. He commended the RSCC for their good work in meeting their objectives.

Adjournment

Chairman Jimison adjourned the meeting at 4:26 p.m.