

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. It is my understanding that 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. 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 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 2013² which is up from 200,000 barrels per day in 2009. 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 (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 increased costs on to the farmer in the form of lower prices for the commodity being shipped. For

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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wheat, the cost is around \$.40 to \$1.00/bushel which includes the penalty and the additional basis cost. Using the lower number, this translates to a loss of \$9,600 per average farm if you assume that one-third of the acres are planted to wheat. 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. While I understand that there are only so many railcars, 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 the consolidation in the rail industry and the resulting lack of effective transportation competition. The recent oil and coal production increase 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
President