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August 30, 2024
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BEFORE THE
SURFACE TRANSPORTATION BOARD

Docket No. EP 775

GROWTH IN THE FREIGHT RAIL INDUSTRY

WRITTEN TESTIMONY OF TOM WILLIAMS

I. Introduction

My name is Tom Williams, and I am BNSF's Executive Vice President and Chief Marketing Officer. Over my 30 years at the railroad, I have had the privilege to work with customers across our entire portfolio, most recently serving as Group Vice President for our Consumer Products business unit where I led BNSF's efforts to grow our intermodal business, which is our largest and most truck-competitive segment. Several years ago, I served on the STB's Rail Shipper Transportation Advisory Council, which was a great opportunity to engage with the Members as well as the customers and other stakeholders serving on the Council. I appreciate the opportunity to share with the Board about how we work with our customers to grow their businesses. While sharing specific plans for future investments to drive rail growth would implicate competitive concerns, my hope is that the information I am providing concerning how we have pursued growth historically along with information about publicly announced plans will provide the Board the information it seeks about BNSF's approach to growth.

II. BNSF Is a Growth Railroad

Growth has been part of BNSF's DNA since our formation in 1995. Since then, our volumes have grown by 30% while total volume across the rest of the Class I segment has declined.

By the end of this year, our overall unit volume excluding coal will have grown by approximately 65% since our merger. Our unique growth story has come from a wide range of markets that are highly competitive with trucks. We have grown annual industrial products volumes by 17%, agricultural products volumes by 26%, and consumer products volumes by 69%. BNSF has grown to become the largest intermodal and agricultural products rail carrier in North America by a significant margin. BNSF's status as a growth leader is the result of decades of consistent, strategic investments in both our network and our customer relationships that have allowed us to succeed in highly competitive global markets. Importantly, this also reflects the tremendous efforts of our employees who have dedicated themselves to serving our customers.

As I will describe, BNSF has not had the luxury of letting growth come to us. The markets that drive our volumes are intensely truck competitive, and our customers are continuously modernizing their businesses. We have seen some traditional rail markets diminish over time and we expect that to continue, although it's hard to predict which ones with much certainty. Our continued growth thus largely depends upon our ability to innovate and create the efficiencies necessary to keep up with our customers while providing a customer experience that attracts volume away from trucks. We must continue to be a scrappy competitor with an entrepreneurial mindset who is willing to make forward-leaning investments so we can serve emerging growth opportunities as well as replace volumes that will inevitably decline in other areas.

III. Intermodal Conversion Remains Core to our Growth Strategy

I will start by focusing on our intermodal business, which has been our main growth engine since the Santa Fe railroad first put a J.B. Hunt trailer on the back of a flat car in 1989. That was a groundbreaking moment in our industry that marked the beginning of a partnership that has taken millions of long-haul truck movements off our highways and prevented hundreds of millions of tons of greenhouse gasses from entering our air.

Today, intermodal represents about half of all of BNSF's volume—with almost two million units of incremental growth since 1996. That is particularly notable given the intensely competitive nature of that market and how hard we need to compete on service performance, reliability, rate, and customer experience to continue converting truck moves to rail. This has only become more intense as competition has grown between rail carriers, motor carriers and even routing options for import containers via the Panama and Suez canals versus US west coast ports. Our ability to continue converting traffic to intermodal rail depends on BNSF constantly innovating and reinvesting in that service and driving more efficient use of our assets. We are doing all of the above.

- <u>Logistics Park Expansion</u>: Over the past ten years, BNSF has invested approximately $1 billion in intermodal facility expansion and another $300M on strategic land acquisitions in support of our intermodal business. Those investments have already enabled us to handle an additional three million intermodal lifts over the last ten years, and they are positioning us to handle even more going forward. BNSF currently operates the four largest intermodal facilities in North America, each of which can handle more than one million lifts annually. Recognizing the potential of our logistics parks to support their growth, our intermodal customers have invested $13.6 billion to open over 340 new warehouses totaling an additional 114 million square feet at our intermodal logistics parks serving the Chicago, Kansas City and Dallas-Fort Worth markets. Expanding our intermodal logistics parks sets the stage for what we are now doing in Barstow, California.

- BIG: Our largest intermodal operations are in Southern California where millions of containers funnel off ocean vessels and through the Ports of Los Angeles and Long Beach each year. We think there is an opportunity to grow this market significantly in the next twenty years. Doing so will require expansion of existing infrastructure, and BNSF has announced plans to make the necessary investments. We are planning to invest $1.5 billion over the next five years to build a 4,500-acre integrated rail intermodal facility in Barstow, California.

  Our Barstow International Gateway—or BIG for short—will eliminate thousands of truck miles from California's highways, reduce carbon emissions, and dramatically increase the speed at which our customers can get their products to market. BIG is also projected to directly or indirectly create about 20,000 jobs. And it will create long-term value for BNSF by simplifying and expediting movements from one of the busiest parts of our entire network. Our proposed investment in BIG represents the single largest investment in an intermodal facility that has ever been made in the history of our industry.

- Quantum: To capture the growth needed to fill these expanded facilities, we must offer innovative service products that keep us competitive. We have done that recently with J.B. Hunt. We identified an unmet need in the market for service-sensitive freight that could leverage the cost and sustainability advantages of intermodal rail service. To reach that need, we introduced our Quantum product late last year which gives customers 95% on-time door-to-door performance on a transit schedule that is one day shorter than our traditional intermodal offering. To deliver this "white glove" service, J.B. Hunt and BNSF have created a jointly staffed intermodal innovation center to monitor Quantum loads 24/7/365. We work to identify the potential for service variability before it occurs and proactively solve the potential issue. With Quantum, we are targeting the most service-sensitive freight that historically would have never moved by rail, and we have seen a positive early reception and expect solid growth to continue.

IV. Supporting Agricultural Products Growth Is Core to our Identity

Next, I will turn to our Agricultural Products business. Our partnership with America's agricultural producers is a central part of our heritage. As I mentioned, we are the largest transporter of agricultural products in North America, and the grain we haul to the Pacific Northwest alone represents more than a quarter of the entire amount of grain that the US exports every year across all modes. We are an integral part of the success of this market—not just an independent link in the supply chain—and our approach reflects the responsibility we feel to America's agriculture economy. Even though we have a discrete subset of freight-paying shippers, we devote resources across all layers of this industry. For the past 20 years, we have had a team of dedicated regional ombudsmen whose job is to embed themselves with producers, elevator operators, and traders around our network to make sure we understand their business opportunities and challenges as well as to make sure that we are getting any feedback we need. For the past 15 years, we have also been operating our Agriculture Rail Business Council, which helps us maintain direct lines to those farmer producers across our network whom we indirectly serve.

We are proud to say that the highly efficient network our investments have created serves as a cost-effective pipeline for our agricultural products customers and has contributed to the opening of significant new markets for America's farmers. In 1996, our grain shuttle program was in its infancy, amounting to just four loading facilities. We now have 269. That includes 119 new destination facilities that have helped open up new export opportunities, as well as additional domestic markets for our customers' products. While much domestic grain processing occurs close to where grain is grown, BNSF plays an important role in helping processors find new markets for their finished products, such as ethanol and meal to fuel refineries and dairies in California and animal feed to support cattle ranchers in West Texas. Driven largely by these investments, last year our agricultural products volume was 25% higher than in 2000 even as volumes for the rest of the industry were down 12% over that same period.

V. Our Innovative Logistics Center Concept Sets the Stage for Carload Growth

To be clear, we are not just an intermodal and agricultural products railroad, and we see tremendous growth opportunities across our entire portfolio. Our innovative logistics center concept is an example of how we have been investing in facilities that support the growth of our existing carload customers and make it easy for other carload shippers to convert truck volume to rail. The logistic center concept was born from a desire to reach regions and customers who have not historically been directly served by rail. We wanted to make conversion from trucks to rail as turnkey as possible. In the past decade, we have opened logistics centers servicing manifest and unit train traffic in the Southern California, Denver, Oklahoma City, and Permian Basin markets. These facilities provide customers with already permitted, shovel-ready, rail-served locations, which can cut up to nine months off their development timeline. Construction will finish this year on a fifth location serving the Houston market, and we are in the design process for the development of an additional three logistics centers serving the Dallas/Fort Worth, Phoenix, and Northern California markets.

One market our logistics centers support is the fast-growing renewable fuels segment, which shows how our forward-leaning investments let us quickly respond to diverse growth opportunities. The deep integration of our network with the agricultural supply chain—and the investments we have made in it—position us well to serve the needs of renewable fuels manufacturers and distributors. This means moving the finished renewable fuels as well as refining feedstocks such as vegetable oils, yellow grease, and other inputs. Our focus on this fast-growing area is already bearing fruit as volumes in our ethanol category, which includes renewable diesel and renewable aviation fuel, have four consecutive years of year-over-year growth, increasing by a total of 33% since 2020.

We also pursue carload growth by partnering with shortlines. BNSF has relationships with over 200 short lines, regional carriers, and switch carriers, and those relationships are key to providing carload customers with efficient, competitive door-to-door service. Our shortline partners have unique market insights and we use those to benefit our joint customers. We worked with shortlines to create monthly score cards that track interchange performance and identify opportunities to improve processes. We also work with our shortline partners on targeted sales blitzes where BNSF and short line marketing representatives meet jointly with potential customers to develop integrated service offerings to meet their needs.

VI. Investment and Innovation in Service Is Critical for Continued Growth

Regardless of which market is the biggest driver of growth at any given time, our overall growth strategy relies on constantly looking for newer, better ways to serve all our customers, and then making the necessary investments to bring those innovations to life. I think the best place to start in describing those service efforts is with safety.

a. Excellent Service Requires Excellent Safety Performance

Safety is foundational to our work. We succeed when our employees return home in the same condition as they came to work, and we eliminate incidents that impact the communities in which we operate. Running a safe railroad is key to the quality of our service and our ability to grow. When the railroad is running incident-free, fluidity is high and service variability is reduced. Our work toward our vision of an accident and injury-free railroad directly supports our commitment to provide our customers the service they need to succeed and grow in their respective markets.

In 2023, we achieved an all-time record low number of injuries and the lowest injury frequency ratio in our railroad's 170+ year history. This year, we are on pace to do even better, with improvements in injury frequency and severity as well as a substantial improvement in our rate of rail equipment incidents. Our work in this space is never done, but we are proud of the commitment of the entire BNSF team that has made this progress possible.

b. Our Service Innovation Must Meet Our Customers' Evolving Market Needs

Along with safety, a core aspect of our growth strategy is the ability to adjust our service offerings to meet the changing needs of our customers' dynamic and competitive markets. More than 30% of our carload customer volume mix changes every year for various reasons, and intermodal demand can swing substantially depending on trends in the trucking and global shipping markets. For example, after low trucking demand depressed our domestic intermodal volumes for the first six months of this year, we rebounded to now be on pace to set an all-time volume record for domestic intermodal for the month of August. To grow in this environment, we must always seek efficiencies that will increase the value we offer to our customers. And that requires investment.

Over the past ten years, BNSF has steadily committed substantial capital to our network. Within that, I want to focus on our investments in capacity expansion. To grow our business, we must make smart investments to have the right capacity in the right places when opportunities arise.

The need to build that capacity is constant throughout the business cycle. That is why BNSF has devoted substantial resources to expansion even during periods when volumes were falling. Over the past five years, we have invested over $3.2 billion in expansion capital during a turbulent period where supply chains have been impacted by a number of factors outside of our control, including the COVID pandemic. Despite the recent volatility in several of our key markets, we are hopeful these large investments will position us for long-term growth and provide sufficient returns, but there are no guarantees in our business.

The big bets go beyond portions of our network with which our customers interact directly, like our intermodal logistics parks and carload logistics centers. BNSF has been engaged in a years-long effort to expand capacity on our Southern Transcon corridor, including a project we have completed this year to add an additional 40,000 feet of processing tracks adjacent to our Belen, New Mexico terminal. Belen is the largest locomotive fueling facility in North America and these additional tracks will minimize the time it takes for fueling, inspections, and crew changes. We expect these investments to improve total train capacity through this portion of our network by 30%.

Investments such as the expansion of our fueling facility in Belen as well as our efforts to implement new technologies on our network may be less visible to our customers but are crucial to the continued improvement in our service performance that is necessary to facilitate customers bringing more volume onto our railroad. We are proud of and grateful for the efforts of the thousands of BNSF team members whose hard work allowed us to overcome the effects of the pandemic and turn the corner on the service disruptions our customers experienced in 2021 and

2022. Across all our key service metrics, BNSF is running consistent with pre-pandemic levels, and our teams continue to drive further service improvements. As a company, we will continue to support and expand on their efforts through continued investments in new technologies and processes.

We make these investments knowing there is no guarantee that the growth we seek will materialize, much less continue over the long term. Our experience with crude by rail is a good example.

In the early 2010s, we saw an opportunity to haul more crude oil by rail as advancements in fracking technology outpaced existing pipeline capacity, particularly from the Bakken Shale and Alberta Tar Sands. We also understood that investments to build capacity to pursue this business would also benefit our network more broadly, particularly with respect to our agricultural products customers in the region. So, we invested significantly in infrastructure to pursue this growth opportunity, increasing crude by rail capacity in the broader Williston Basin by 25%. But after crude by rail peaked in 2014, market conditions changed, and new pipeline capacity was approved that resulted in a significant reduction in our volumes. As of today, our crude volumes are down over 50% and our frac sand volumes are down more than 40%. We knew that modal shift to pipeline was a significant longer-term risk to this business, yet we undertook these investments to aggressively support that growth opportunity. And while crude and frac sand volumes have diminished, our core network has benefitted from the greater capacity, which has contributed to our efforts to grow other business such as export grain. These calculated risks demonstrate that we mean it when we say that we are here to grow our customers' businesses.

VII. As Our Customers Markets Evolve, Rail Growth Will Take Different Forms

Our commitment to growth has persisted even as our customers' markets have changed over time. Sometimes those markets change quite significantly, such as with coal. From 2014 to 2023, utilization of coal for electric generation in the United States decreased by 56%. BNSF moves more coal than any other railroad by a considerable margin, so we have been especially exposed to this dramatic shift. Over this period, our coal volumes declined 35%—over 800,000 carloads. Our commitment to our coal customers is reflected by how we've grown our share of coal volumes even as volumes have shrunk overall. In our peak coal volume year of 2008, BNSF accounted for 52% of all western coal volumes. Last year, our share of western coal volumes was 65%. We have worked hard to keep our coal customers competitive with natural gas and wind generation, even while navigating a significant impact to our own business.

This sort of market evolution means that BNSF's future growth might take a different form than it did years ago and not follow a linear path. The rational efforts of our customers to modernize their businesses to compete in global markets may reduce their inputs and negatively affect our volumes. But BNSF remains dedicated to helping their businesses grow and in doing so, grow the volumes we handle within those market dynamics. Our experience in the steel markets illustrates this point.

Over the past several decades, the shift of steel production from integrated mills utilizing blast furnaces to electric arc furnaces has returned some of the domestic steel production that was lost to foreign producers. But producing steel by recycling scrap steel in an electric arc furnace requires approximately 50% fewer input materials for a given quantity of finished steel versus integrated mill production relying on iron ore, coke, and limestone. BNSF has been a key part of the steel supply chain for over 100 years, and the innovation in this space means less overall volume for us. However, we have aggressively grown our scrap portfolio to support our customers. As a result, our scrap business has grown by 62% since 2014—more than any other commodity group in our entire portfolio in that time—while metallic ores volume is down 23% and limestone and coke volumes are each down 11%. This example shows how railroads' efforts to grow in evolving markets do not always translate to an increase in top-line volume numbers.

VIII. Conclusion

I hope that my testimony has confirmed for each of you that BNSF's commitment to our customer's growth through evolving market conditions is unshakeable. We believe we demonstrate that commitment to them every day with our communication and engagement, our service, and our investments. That approach produces the results I have described, and they continue to happen as we speak. Through the first two quarters of 2024, BNSF led the Class I industry in volume growth. This August is on pace to be the highest volume month of August for domestic intermodal and agricultural products in the history of our railroad. I appreciate the opportunity to present this testimony.

Respectfully submitted,

/s/ Tom G. Williams
Tom G. Williams
Executive Vice President and Chief Marketing Officer
BNSF Railway Company

Dated: August 30, 2024

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WRITTEN TESTIMONY OF JILL MULLIGAN

My name is Jill Mulligan, and I am the Chief Legal Officer of BNSF Railway Company. I appreciate the opportunity to be with you here today.

I recently surpassed 20 years as a practitioner before this agency, and I applaud this current Board's strong recognition of the role that railroads serve in our economy as well as your efforts to bring growth to the forefront of the regulatory conversation. As you can tell from Tom's comments, growth is our bias at BNSF, from the ground-breaking commitment we made to intermodal and the creation of novel harvest shuttle programs on our railroad, to our best-in-industry volume trends over our history. We are extremely proud of that legacy and of our continued commitment to bringing more and more of our customers' business to our railroad through service, investment, and innovation, as outlined by Tom.

This Board is asking the important question of what role regulators play to support the shared goal of growth of rail transportation. That includes policies and actions that let market forces govern commercial relationships between railroads and shippers, while providing backstops in terms of well-tailored regulatory remedies, equally rooted in applying market concepts. That also includes policies and actions that reduce barriers to critical new investment in facilities like our BIG project and that support the implementation of new technologies designed to drive safe, efficient, and reliable service, and in turn, promote growth.

I want to focus on BIG for a moment. One example of a clear regulatory obstacle to growth is the California Air Resource Board's (CARB) proposed in-use locomotive rule. This regulation, if enacted, would impose requirements that are impossible to meet, including BNSF paying approximately $800 million into a fund each year and an obligation to use locomotive technology that is not available. Put simply, if this regulation is allowed to take effect, it would likely be fatal to our Barstow project that Tom described. This Board recognized the potential that BIG has to reshape West Coast intermodal for our customers and the surrounding communities, moving port traffic straight to rail, taking trucks off congested roads, dramatically cutting associated emissions, and creating jobs. This Board also recognized the risk that the CARB rules have to the national supply chain and to important growth efforts and put forward a forceful preemption analysis encouraging the EPA to give full effect to the federal statutory directives that prevent patchworks of state laws from interfering with the national rail network and interstate commerce. We greatly appreciated the Board's comments in the U.S. Environmental Protection Agency's rulemaking proceeding on the unintended consequences of this proposed rule. I know our customer community did too.

As Tom outlined, we have taken steps over many years to ensure our network grows with our customers by continuously investing in our employees, technology, our track and facilities, and in locomotives and rail cars. Our customers have matched that with their own investment sited on our network. One critical factor supporting that has been a relatively stable regulatory environment conducive to investment. We have commented before how important things like regulatory certainty, and the ability to earn investable returns, are to making the investment decisions that have incubated BNSF's growth of prior decades. We have also shared how backing away from core market-based principles create significant uncertainty with a clear negative effect on additional investment. We appreciate the opportunities the Board consistently provides to highlight those unintended consequences for investment and growth in individual regulatory proceedings.

This hearing is a good reminder that railroads and other federal policy stakeholders should challenge ourselves to better assess whether regulatory proposals and actions make it easier or harder to bring growth to the rail network. The testimony submitted by the Association of American Railroads highlights how technological innovation has a key role to serve in enabling rail growth. Our industry has seen how the orientation of policymakers against the deployment of innovative rail technology disincentivizes these investments, creating headwinds to safety as well as service to our customers, and ultimately makes our industry less capable of competing with trucks. While the Board is not the agency charged with railroad safety, its expertise means that its voice carries great influence and could help inform the broader policy climate.

Finally, I want to take a moment to also echo the AAR testimony highlighting the time and uncertainty associated with permitting that continues to be a significant impediment to infrastructure development for railroads—this is a very real challenge BNSF faces on projects big and small. It is also a challenge that our customers face in developing their own rail-served facilities. Coming out of this hearing, the Board may consider if there is a broader, appropriate use of its preemption authority that can help railroads and customers overcome obstacles that unreasonably interfere with railroad operations, including revisiting the issues raised in the Board's 2016 decision in the Valero case.[1]

I would like to conclude by thanking you all for bringing rail growth to the forefront of the regulatory conversation and for this opportunity to highlight BNSF's long-time commitment to growth. Thank you.

Respectfully submitted,

/s/ Jill K. Mulligan
Jill K. Mulligan
Executive Vice President and Chief Legal Officer
BNSF Railway Company

Dated: August 30, 2024

[1] *Valero Refining Company—Petition for Declaratory Order*, FD 36036 (Sept. 20, 2016).