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Before The
Surface Transportation Board

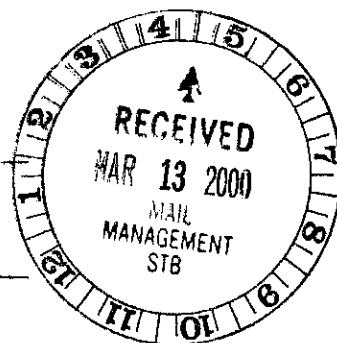
Ex Parte No. 582

Office of the Secretary **Public Views on Major Rail Consolidations**

MAR 15 2000

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Public Record

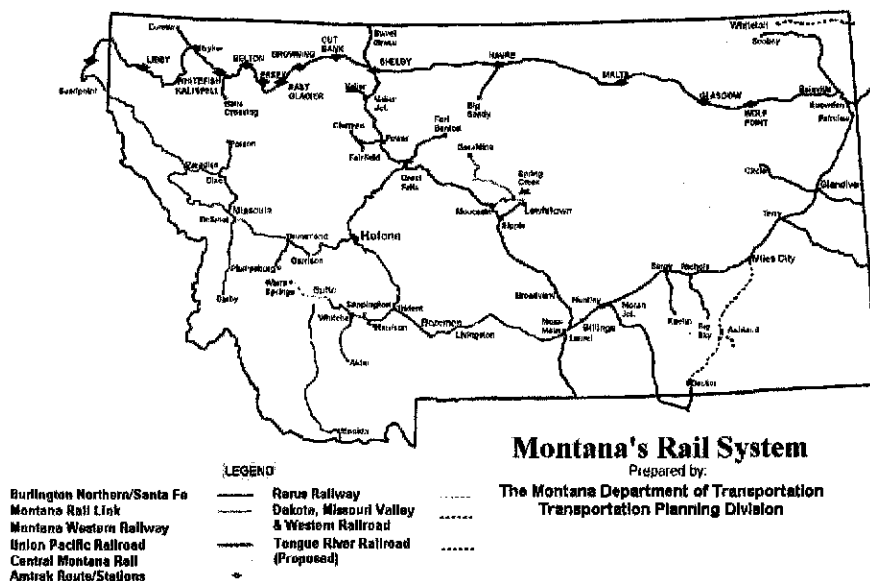
Addendum Statement of
Leonard Schock, Commissioner
Montana Wheat & Barley Committee



The Montana Wheat & Barley Committee (MWBC) herewith submits this, its Addendum Statement, in the above-described proceeding. This addendum is submitted to answer questions presented to Leonard Schock by Vice Chair Burkes at the conclusion of Mr. Schock's testimony on March 7th in the above-styled proceeding.

Question by Vice Chairman Burkes: How would a demonstration project work in Montana?

Answer: The rail map of Montana is outlined below. Montana Rail Link (MRL) is



in blue. On the west end, in Idaho, MRL connects with BNSF and UP. MRL is a class II railroad with its own locomotives and grain cars. Central Montana Rail (CMR) is outlined in green. It is suggested that a demonstration project would be designed to evaluate the pros and cons of opening up MRL and CMR access to UP, thereby

evaluating the theory of competitive access between a Class I, a Class II and a Class III railroad. Many of the aspects of bottleneck, terminal access, and paper barriers could be evaluated in this project. Currently there is about \$20+ million in grain truck traffic available for capture in the eastern half of the state and an equal amount of lumber truck traffic in the western half of the state available for the competing railroads.

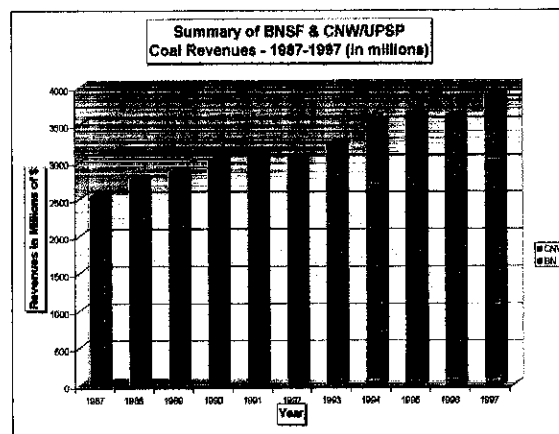
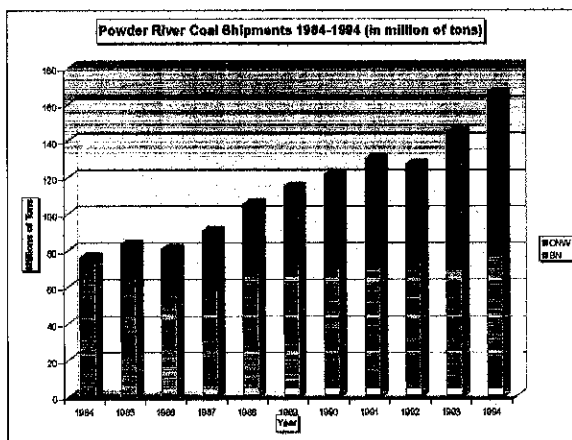
It is suggested that all rail lines in Montana be opened up to access by the three railroads, or some parts of common marketing areas.

Further, impetus for this demonstration project is bolstered by the fact that there is current underutilization of hopper cars in the state.

Simply put, this proposed demonstration would open up the Montana rail network for competitive access allowing BNSF, UP, MRL and CMR the right to compete with each other and allow the STB and the railroads to evaluate the merits and problems associated with opening up parts of the nation's railroads to competition.

Would railroads suffer economically? The Montana rail rates are the highest in the nation. It is possible that there may be some rate compression, but the increasing service levels and the availability of shifts from truck to rail, should result in increasing profits for the railroads involved. In the event the introduction of competitive access between the three railroads would require increased investment, we have been advised by several Congressmen that they would be willing to set up programs to facilitate these demonstration programs.

For example, when competitive rail access was introduced into the Powder River Basin coalfields in Wyoming, the BN predicted doom in the form of decreased service and decreased incentive for investments. What happened? As can be seen from the graphs above, shipments went up, and revenues also increased dramatically. While the pre-competitive rail rates were among the highest in the nation, BN's costs went down 38.3% while the rates went down 28% thus permitting margins and profitability to increase substantially. Margins improved by a full 10.3% and the funds for infrastructure



investments became more, not less. Today, both carriers are better off because of rail-to-rail competition for Powder River Basin coal traffic.

What the MWBC desires here is that the STB undertake a series of demonstration projects around the nation that would increase knowledge about the real effects of introducing competition into and among the few remaining rail carriers.

MWBC would happy to work with this Board and the state's railroads to develop workable plans for competitive access. We are confident that the STB would receive positive responses from MRL and CMR to such a proposal.

Question by Vice Chairman Burkes: What is the effect of monopoly railroads on farms in Montana? Answer: My job as a family farmer is to teach the next generation how to farm and explain the wheat market to my 10 year old son, who asked recently, "Why does BNSF get \$1.12/bushel and we get \$2.23/bushel when we plant and pay for the seed, pay for the fertilizer, pay for the chemicals, hire the combiner, pray for rain so that we get a crop, and just worry and work for nine months getting only \$2.23/bushel. BNSF pulls in under the spout at the elevator and pulls the train to Portland and gets 1/2 of what we get and they only have it for 72 hours?" I offer to explain what a monopoly is to him. This is like the game MONOPOLY, which is his favorite. That game says that if you OWN all four of the railroads, you are allowed to charge 8 times the rate because you don't have any competition. He quickly understands, as one of his favorite moves is to get all four RR's right away and charge the dickens out of me, the customer.

Secondly, the service under monopoly rail system suffers. In essence, those that pay the highest rates get the worst service. For example, in 1981, I had to pile 25% of my crop of Hard red spring wheat on the ground. In 1999, while there was little grain movement nationally, my local elevators had between 4 and 5 unit trains of wheat piled on the ground. This is not corn or other feed grains – this is # 1 Dark Northern Spring wheat that people utilize as food, the best quality bread wheat in the world. Here it is piled on the ground subject to weather and varmints. Why? Because BNSF was not able to move the wheat! My customers in Japan now have new meaning to stone ground wheat!

I might add the big push is for economic development in rural areas. Look at what living under a monopoly has done to my county in eastern Montana. In 1999 we produced 6.4 million bushels of wheat and calculations show we pay excessive rates of some 38 cents /bushel or roughly or \$2.4 million. Spread this over the population of 1,800 (the number of farm producers in the county) equals about \$1,400/person/year. What kind of uproar will this country be in if all citizens had to pay \$1,400/ person in taxes? Yes, Congress will respond! Excess freight charges of \$2.4 million in this one county alone would do LOTS! Over all my 20 some years of farming I figure I have done \$852,000 worth of business with BN. The excessive rates have caused me to pay some \$200,000 extra. That also happens to equal the exact amount of my current farm mortgage! Thanks to BN I'm still in debt. With fair freight rates (180% of variable), I could be operating a lean, clean operation and making a profit. This \$1,400/person equals \$7,000 to our one farm family.

Another way to look at this is that with every unit train of 104 cars that leaves Wolf Point, MT it will take with it \$130,000 excess rail freight rate charges out of the state. The action allowing this state to become totally captive to a single railroad, I remind the Board, occurred without recourse to our farm producers. I hope this helps elaborate on the questions posed by Vice Chairman Burkes at the hearing.

S/ Terry C. Whiteside

Submitted by: Terry Whiteside, Registered Practitioner, for Leonard Schock, MWBC
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