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"Keeping the Lights On and Maintaining Wyoming's Jobs:
Overcoming the Challenges Facing Western Power Generation Facilities"

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Committee on Resources
Subcommittee on Water and Power

Good afternoon Chairman Radanovich and Congresswoman Cubin. My name is Janssen Thompson, and I am the General Manager of the Powder River Division of BNSF Railway Company. I am pleased to be here today in response to the Subcommittee's request for testimony about the operations of BNSF's coal business, the growth we have experienced, and the capacity expansion that we've undertaken in the past few years to respond to that growth, both here in Wyoming and across our network

I will briefly describe my railroad and our role in the coal delivery system, particularly from the Powder River Basin (PRB), the scope of our coal network, the capital investment program to support it, and the step-wise expansion we see in our capability to meet the increasing demand for PRB coal.

BNSF operates the largest volume railroad network in the North America, spanning about 32,000 route miles in 28 states and two Canadian provinces. In Wyoming, BNSF has 1,236 active employees and will hire some 365 employees this year. BNSF's coal transportation network provides the track, terminals, locomotives, freight cars and people to haul the PRB coal that now is burned in 38 states. Each year, BNSF hauls enough low-sulphur coal to generate about ten percent of the electricity used in the United States.

Today you will hear me talk about the Joint Line. This is the approximately 103-mile southern section of the rail lines serving the Powder River Basin in Wyoming. This track is jointly owned and used by BNSF and Union Pacific Railroad (UP). A BNSF predecessor built this line in the early 1970's and UP, through a predecessor, gained access to it in the 1980's. BNSF has access to the Joint Line at Donkey Creek on the northern end and through Shawnee Junction on the southern end. This is the most intensively utilized railroad in the world. Operationally, it is the railroad-equivalent of Chicago O'Hare airport, requiring intense cooperation between the mines, railroads and utilities to run an average of more than 60 loaded coal trains per day to maintain a pipeline of coal to the nation's utilities. There is no other rail infrastructure of which I am aware that has benefited from the same level of maintenance and expansion investment as the Joint Line.

Over the past 15 years, PRB coal production in the Basin has grown dramatically and at a much greater rate than all other coal sources in the United States. Powder River Basin coal production was 7.5 million tons in 1970; 99.6 million tons in 1980; 200 million tons in 1990; and 415 million tons in 2005. We expect PRB production will exceed 450 million tons in 2006.

BNSF has experienced significant growth in its coal business over the last decade. Low-sulfur and low-Nox emissions, coupled with the lowest delivered coal cost per ton have made PRB coal the dominant supply source for utilities in the United States. But it hasn't been "a hockey stick" growth pattern. Since the formation of BNSF in 1995, for example, growth in our coal business occurred through 1999; declined in 2000; grew in 2001, and then declined again in 2002 and 2003, before escalating rapidly in 2004 in light of unprecedented increases in natural gas prices. As with electricity generation and transmission capacity, it is difficult to immediately ramp up railroad capacity against a spike in demand; however, BNSF is appropriately responding with significant investment to increase coal deliveries to meet the demand that, hopefully, will continue for years to come.

BNSF is proud of its performance in hauling PRB coal for more than 30 years. You may be aware of the unusual episodic events of May 2005 when we faced the perfect storm -- a spring thaw coupled with a freak snow blizzard and torrential rains along the Joint Line which combined with coal dust in the right of way to damage the rail bed. The resulting maintenance efforts negatively impacted our service capability for several months. We were not happy with the consequences of these events, and worked closely with our customers throughout the Joint Line maintenance process. We still completed 2005 hauling a record amount of coal and rebuilt stockpiles. The intense maintenance program we undertook put us ahead of existing maintenance schedules, which will accrue operational efficiencies. As a result of this incident, BNSF also worked closely with the mines to achieve better grooming of the loading profile of each coal car to minimize coal dust blowing

into the right of way. We are in discussion with mines and utilities about other additional preventative improvements, such as the use of a crusting agent on coal loads.

Our 2006 coal performance has been even more outstanding so far. In July, BNSF loaded a record 24.98 million tons of coal system-wide, breaking the previous record of 24.43 million tons loaded in May of this year. May, June and July are the three highest coal tonnage months in BNSF history. BNSF has loaded a total of 165.987 million tons of coal through July 31, 2006, up 10.3 percent from the year-to-date total of 150.524 million tons loaded through July 31, 2005. In the Powder River Basin (PRB), including Wyoming and Montana mines, BNSF loaded a record monthly average of 50.8 coal trains per day in July, the fifth consecutive month of record average daily train loadings for BNSF in the PRB.

Delivering this kind of performance to meet growth in demand for PRB coal does not occur in a vacuum. It requires capital investment to expand rail infrastructure and add locomotives. Between 1994 and the end of 2006, BNSF will have invested $3.2 billion dollars in increasing its coal transportation capacity --$600 million in 2006 alone. We've added more than 150 coal train sets—about 125 cars per train set requiring three locomotives—to the coal network in the past decade. We are also leveraging existing capacity, increasing the number of tons carried by each coal train by about 2,500 since 1995 because car design has enabled more coal to be loaded in each car.

Over the next two years, BNSF and UP have agreed to spend an additional $100 million to finish triple-tracking the entire Joint Line and begin approximately 18 miles of quadruple-tracking. Of the 362 high-horsepower, cleaner burning locomotives being added to BNSF's fleet in 2006, about half have been allocated to coal train service.

The BNSF yard at Donkey Creek now has six new staging tracks in operation, which is enabling us to more efficiently stage trains to keep the Joint Line at maximum velocity with trains at the ready for deployment to the mines. By the end of 2006, 77 miles of the Joint Line will be triple-tracked; the balance will be completed in 2007. By 2008, a fourth main line must be added between Donkey Creek and Shawnee Junction.

But keeping the coal network fluid goes beyond the Joint Line. By the end of 2006, we will have finished upgrading our Memphis yard to ensure that increased intermodal traffic does not slow down coal heading to the eastern seaboard. We will also have double-tracked additional miles on our major coal route through Nebraska and added capacity to our Lincoln Terminal, a key part of our coal network. All of these improvements result in more efficient movements, improved velocity, and better train set cycle times, providing our utility customers with more consistent transportation services. We will continue to make substantial investments so long as demand forecasts support them and we can continue to improve our returns, which must exceed our cost of capital.

Since I am appearing before the Resources Committee, it is appropriate to raise the issue of federal permitting for these critical railroad projects. We work closely with the agencies under your Committee's jurisdiction that approve permits, grant easements and work with each other and state agencies in the permitting process. We believe that generally they do everything they can to be responsive to the tight timelines that we have established for completing these projects which are critical to the delivery of the nation's coal. However, we have been concerned about the amount of agency work required for executing several critical project permits on time and urge you to support and encourage the efforts of Fish and Wildlife Department, the U.S. Forest Service, the Bureau of Land Management in processing critical rail project permits.

As you can see, BNSF takes seriously its commitment to Powder River Basin coal and to its customers. There is no better evidence of this than to cite a nearby power plant -- Laramie River Station. Earlier this year, Laramie River Station had concerns regarding the level of their coal stockpile. BNSF has worked closely with Laramie River and at the end of last week they had 36 days of stockpile on hand. A July 20, 2006, Energy Information Administration report on coal stockpiles substantiates the efforts that the railroads have made to keep PRB coal flowing. It states that coal stockpiles have reached their highest levels since mid-2003.

Overall, we believe rail service in the Powder River Basin continues to be a world-class operation and we have invested to expand our ability improve throughput and provide reliable service. We have plans in place to do more. BNSF sees a bright future for Powder River Basin coal and we want to be an active partner with the mines and utilities in that future. We will continue to invest and grow our operations and abilities, consistent with rate of return on capital requirement.

Thank you again for allowing me to be a part of today's proceeding.