

BNSF Railway

Powder River Basin Update

Steve Bobb

Group Vice President Coal

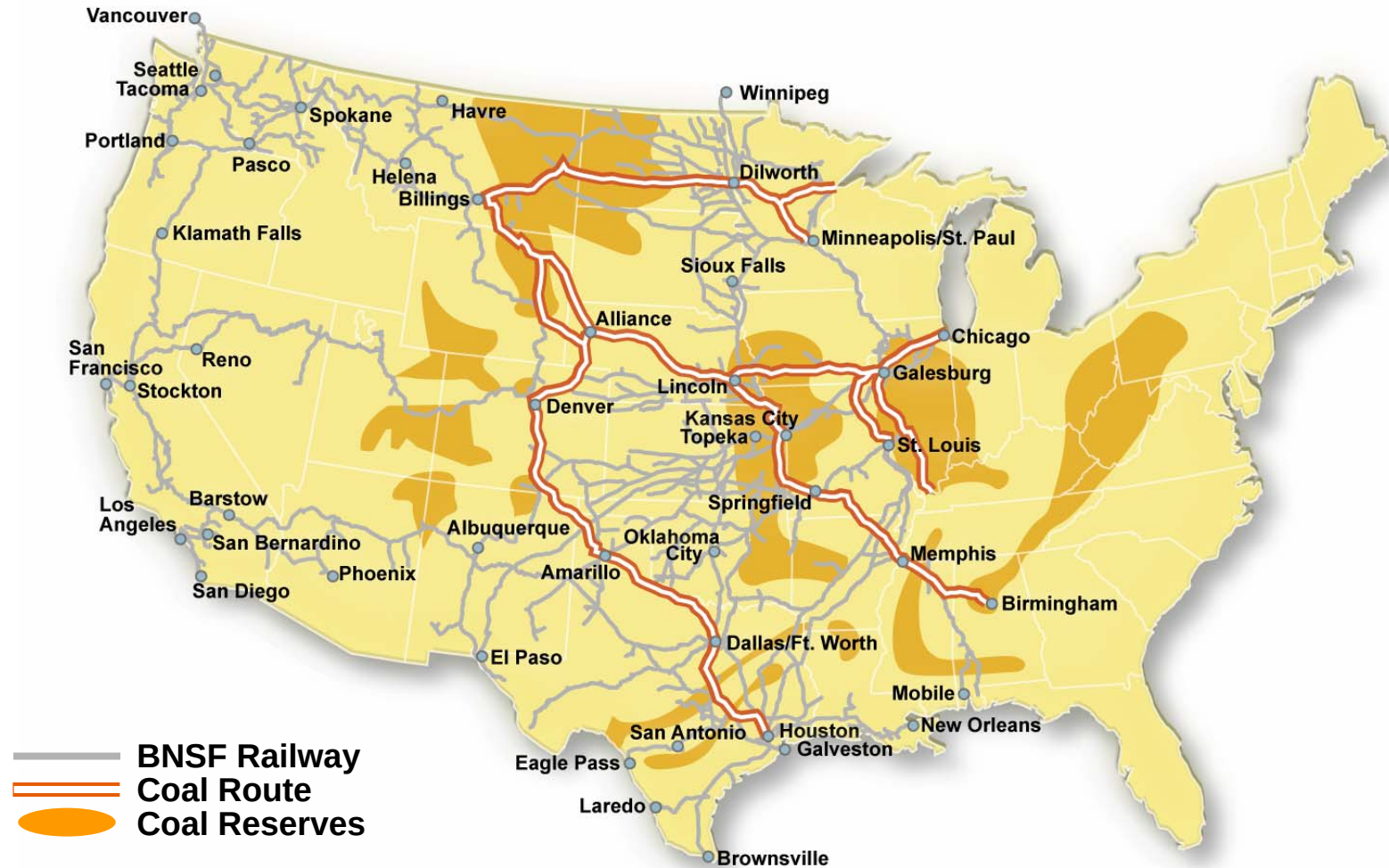
May 17, 2006



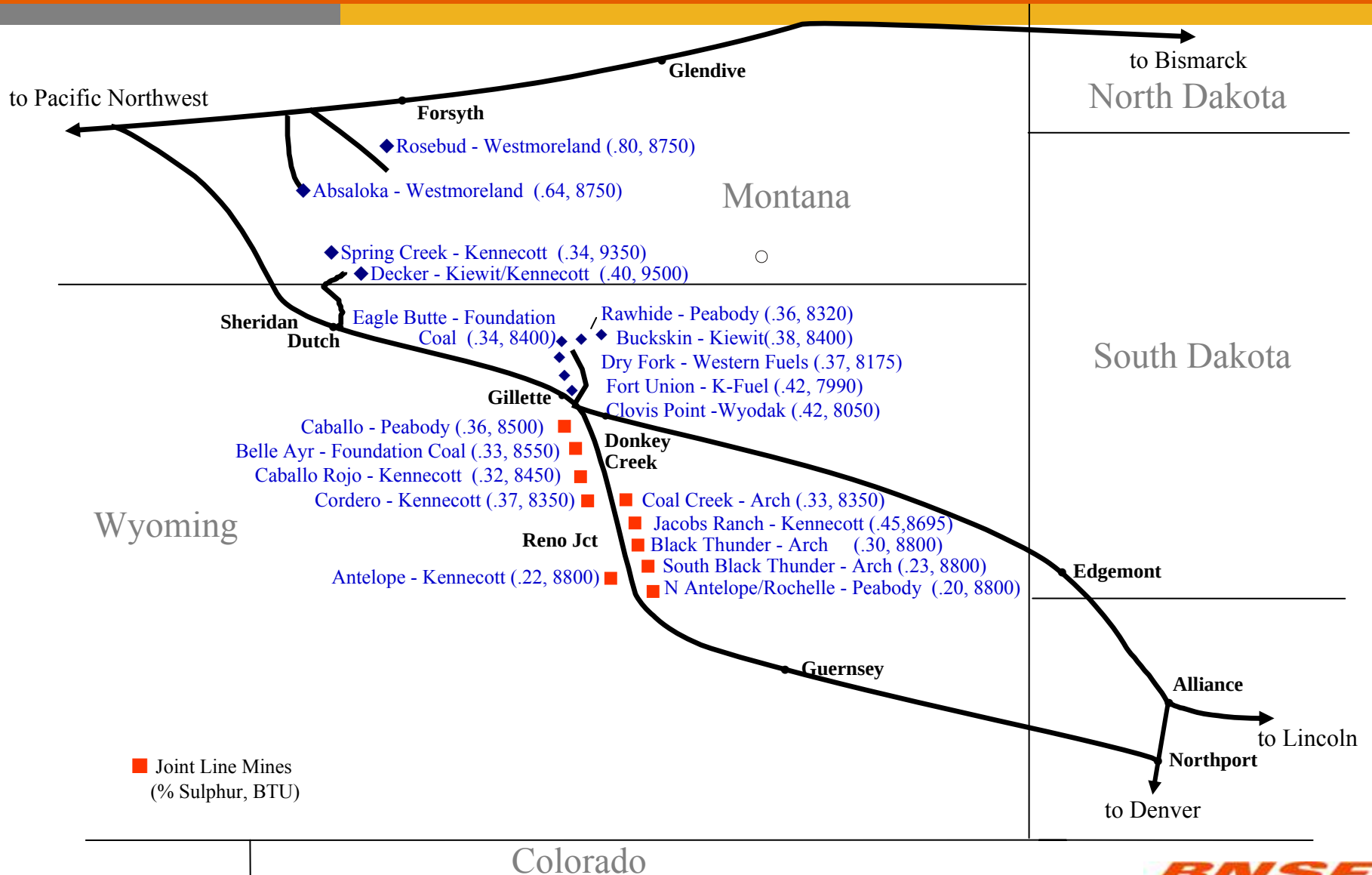
Discussion Topics

- **BNSF Network and PRB mines**
- **BNSF overview**
- **PRB growth history**
- **PRB economics and markets**
- **Catalysts for growth –PRB Demand Drivers**
- **Future coal demand**
- **BNSF capital investment**
- **Joint Line capacity planning**
- **Opportunities and challenges**

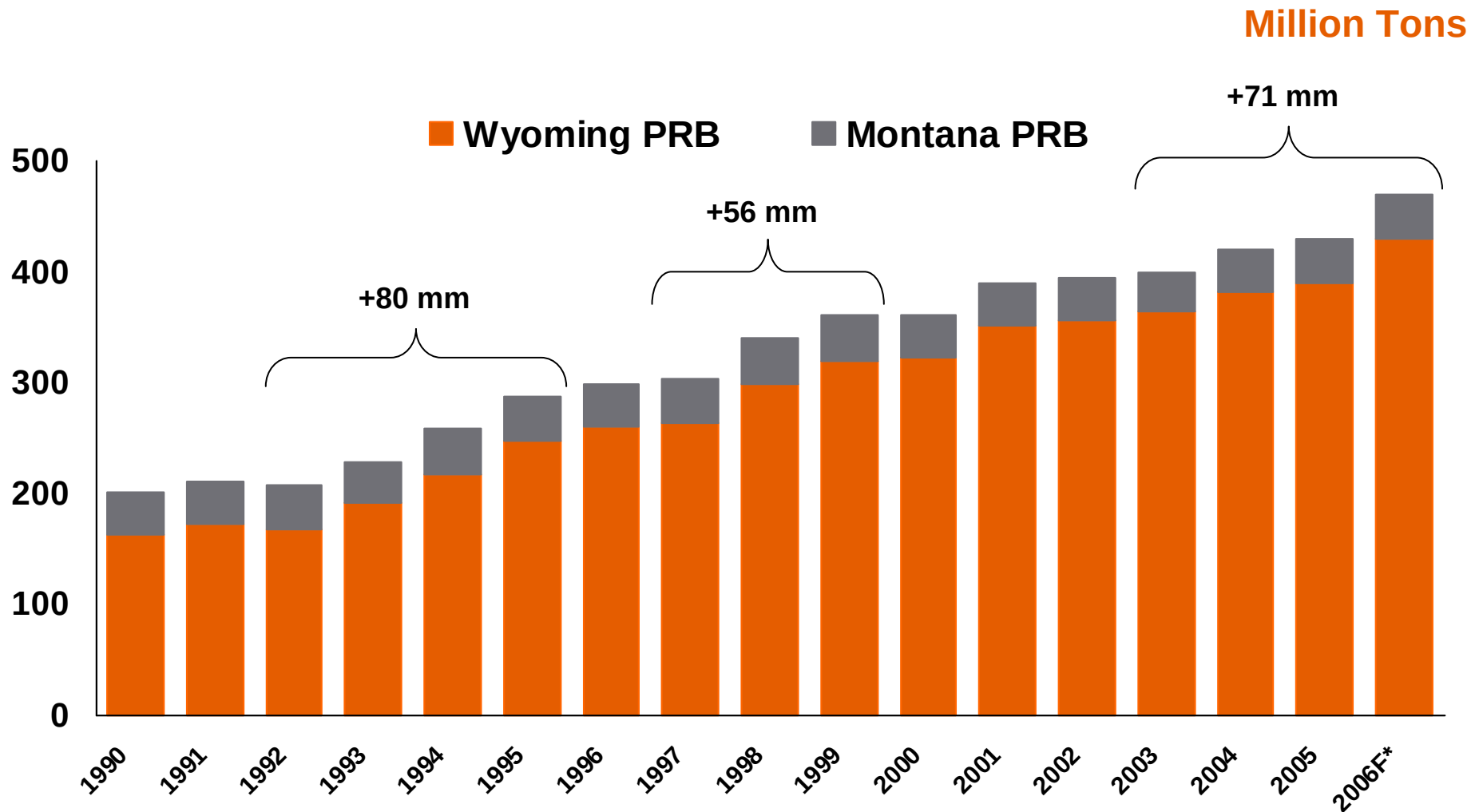
BNSF Network and Coal Reserves



Powder River Basin



Wyoming and Montana PRB Coal Production



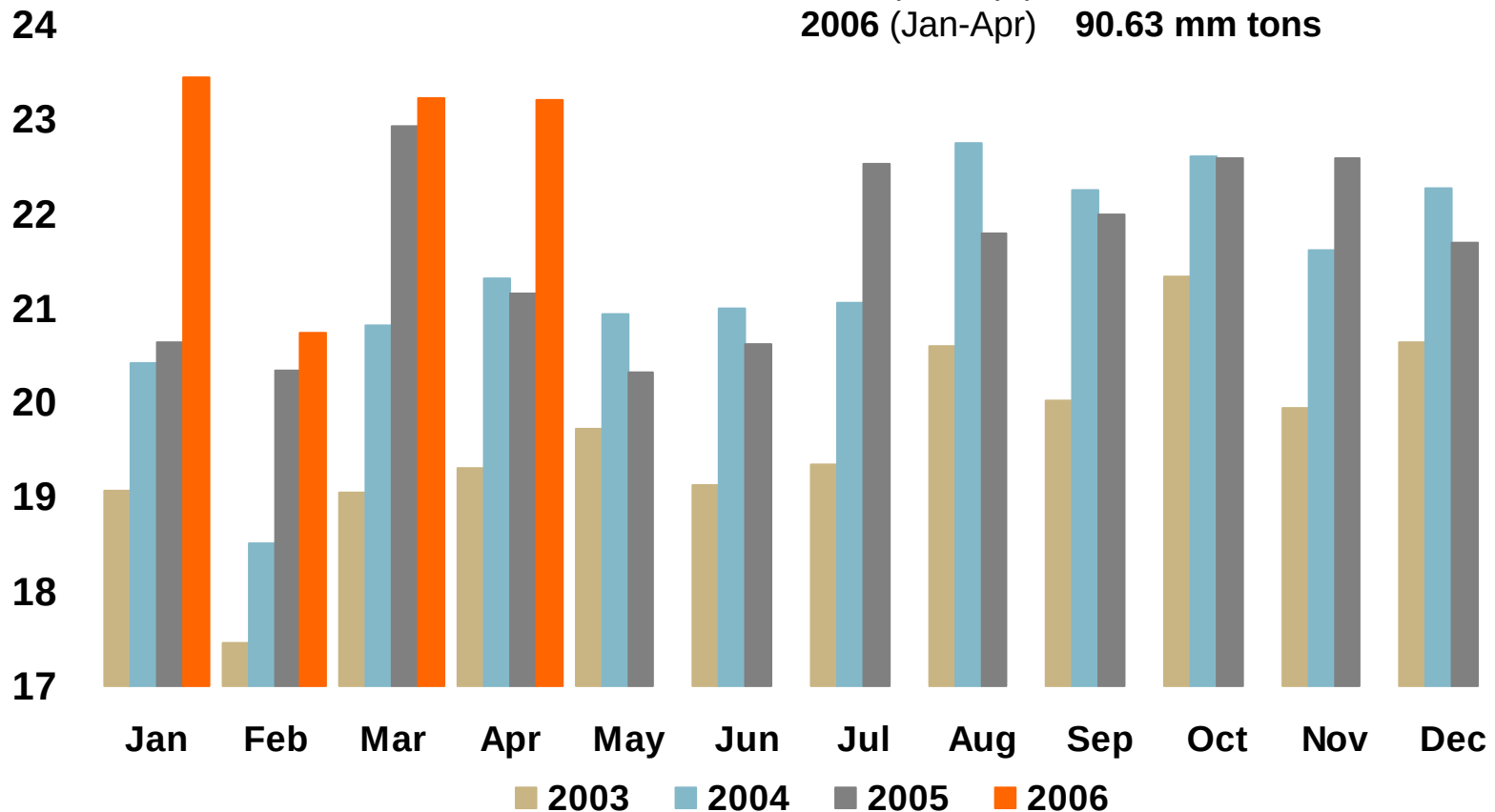
* BNSF forecast of 45 mm tons total PRB growth.

BNSF Monthly Coal Tons Delivered

January 2003 – April 2006

Million Tons

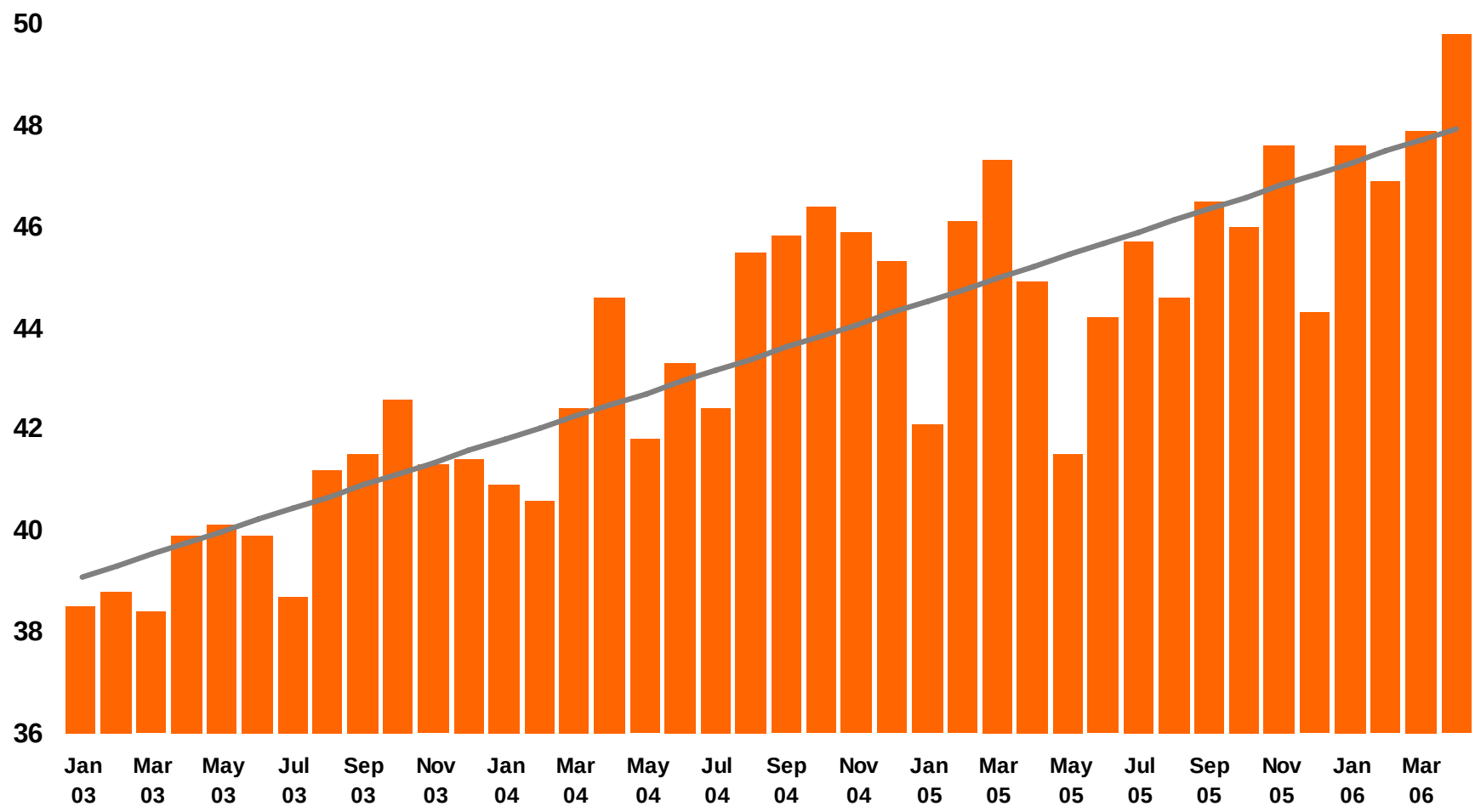
2003 (Jan-Apr) 74.88 mm tons
2004 (Jan-Apr) 81.05 mm tons
2005 (Jan-Apr) 85.07 mm tons
2006 (Jan-Apr) 90.63 mm tons



BNSF Average Coal Trains per Day

Powder River Basin Coal Loadings

PRB Loadings Per Day



Total Rail Haul PRB

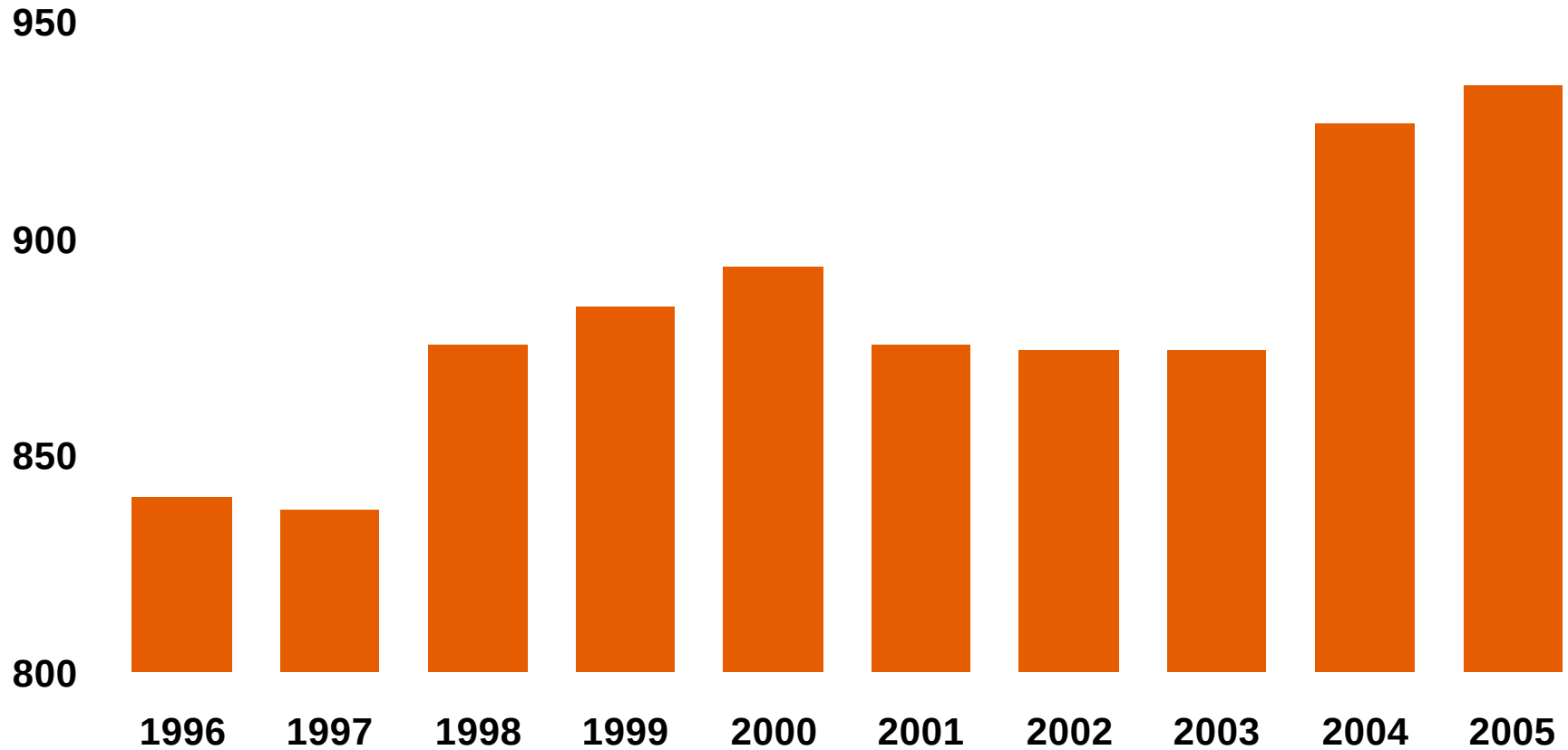
1995 – 2006

Million Tons

	CAGR 95-99	CAGR 00-04	2005 Tons	2006 Tons Thru April	2006 vs. 2005 YTD	
					Tons	Percent
Montana	0.3%	0.4%	28.7	8.9	0.0	0.0%
Wyoming	7.0%	4.3%	386.3	137.0	5.5	4.2%
<i>North Gillette</i>	<i>- 7.5%</i>	<i>11.2%</i>	<i>61.0</i>	<i>23.2</i>	<i>3.4</i>	<i>17.0%</i>
<i>Joint Line</i>	<i>9.9%</i>	<i>3.3%</i>	<i>325.3</i>	<i>113.8</i>	<i>2.1</i>	<i>1.9%</i>
TOTAL	6.3%	4.0%	415.1	145.9	5.5	3.9%

BNSF Length of Haul

Miles



PRB Coal Market Drivers

- **Increasing Electricity Demand**
- **U.S. Economic Growth (Increasing Industrial Demand)**
- **Rising Cost of Fossil Fuel Alternatives**
 - **Revived Trend Toward Coal-Fired Generation for New Units**
- **Lowest Cost Coal Alternative per BTU**
 - **Existing Plant Conversions to PRB Coal**
- **Emission Standards Increase Value of Low Sulfur Coal**
- **Efficient Transportation**
 - **Railroad Capital Investments**

2005 Electric Utility Delivered Coal Prices

PRB delivered costs are the lowest.

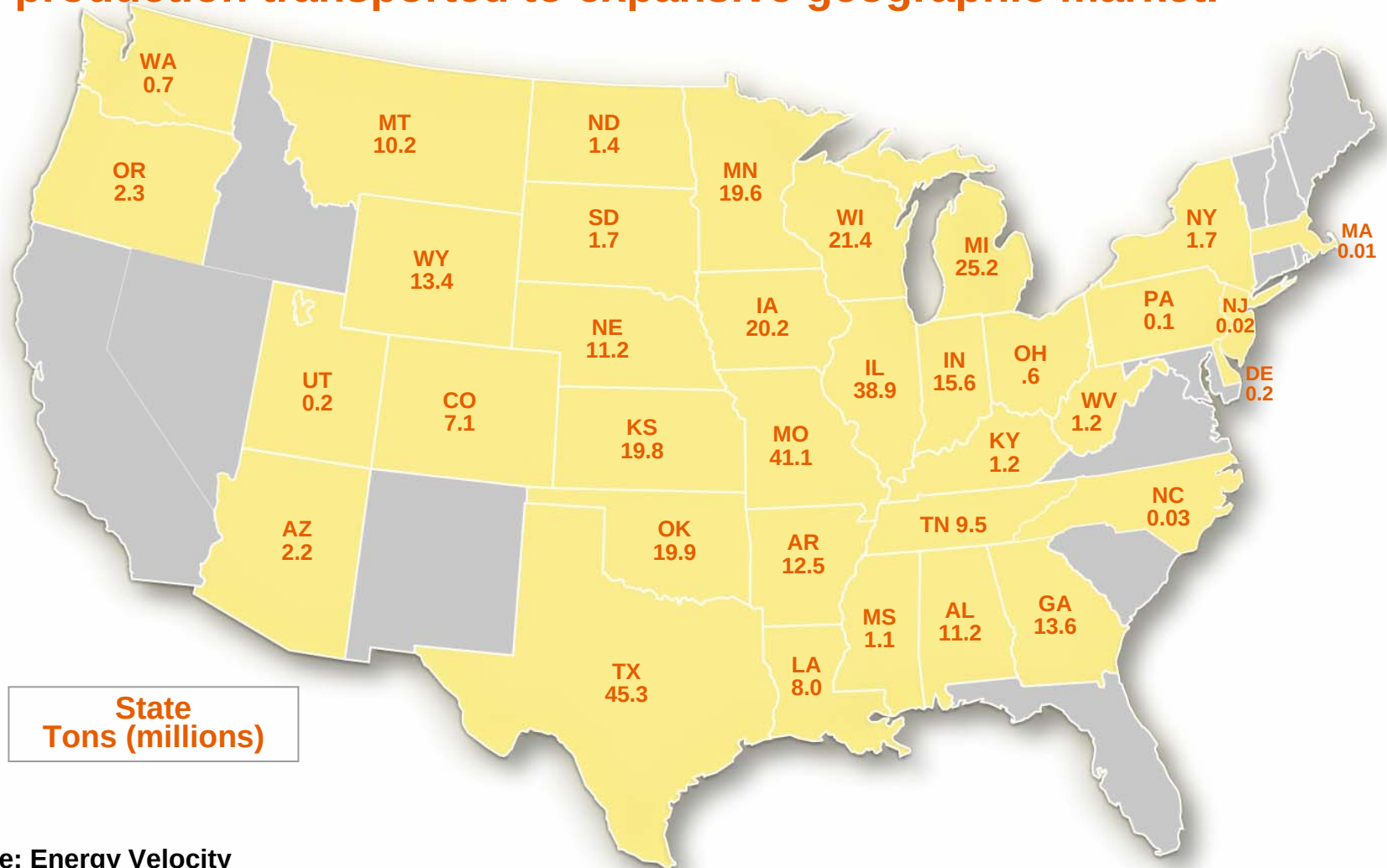
\$/mmbtu

SUPPLY REGION		% Change since 2003
Central App	\$2.23	+ 40%
Northern App	\$1.77	+ 49%
Southern App	\$1.83	+ 13%
Imports	\$2.32	+ 50%
Illinois Basin	\$1.43	+ 18%
Rocky Mountain	\$1.42	+ 14%
PRB	\$1.15	+ 12%

Source: FERC

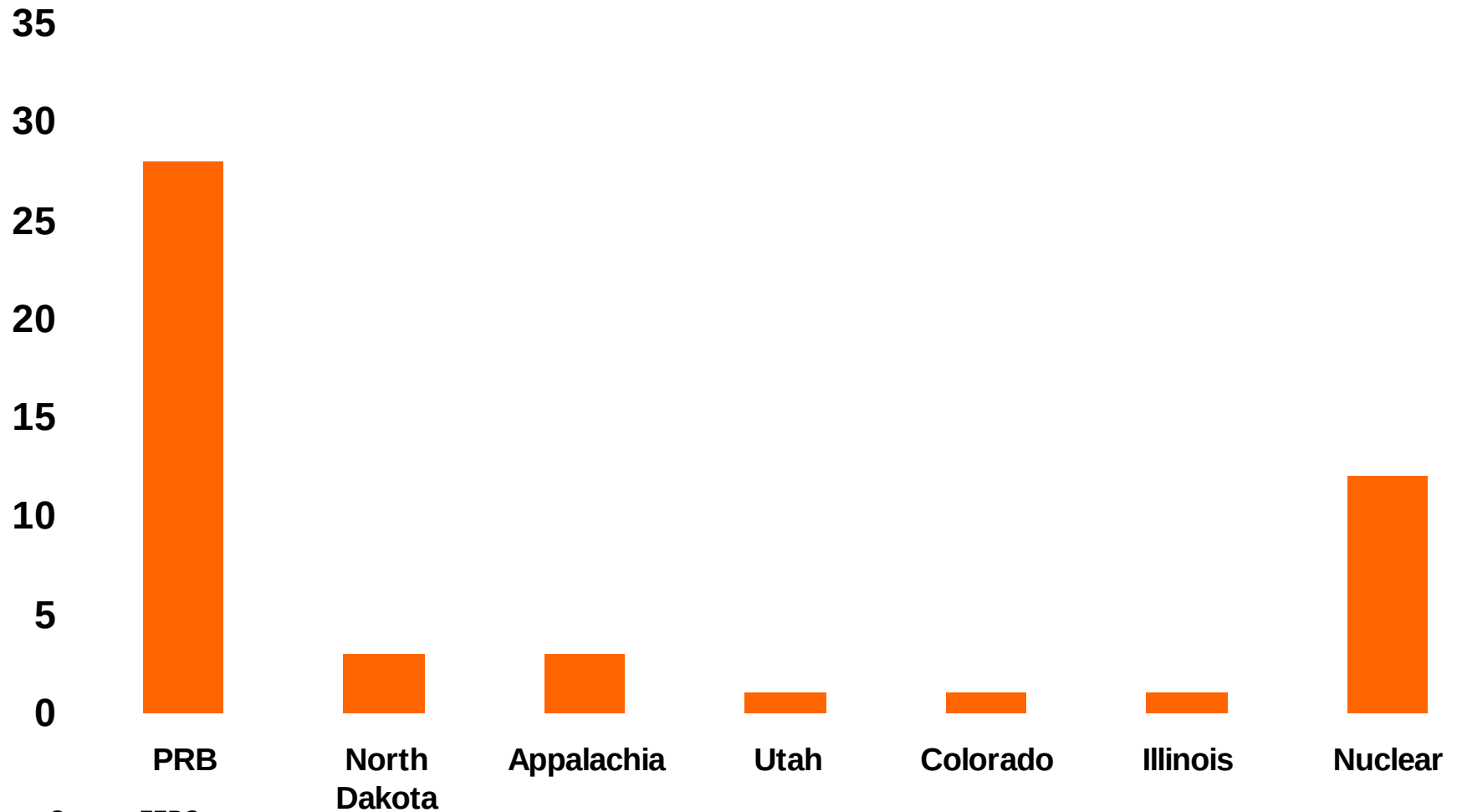
2005 PRB Delivered Coal

PRB production transported to expansive geographic market.



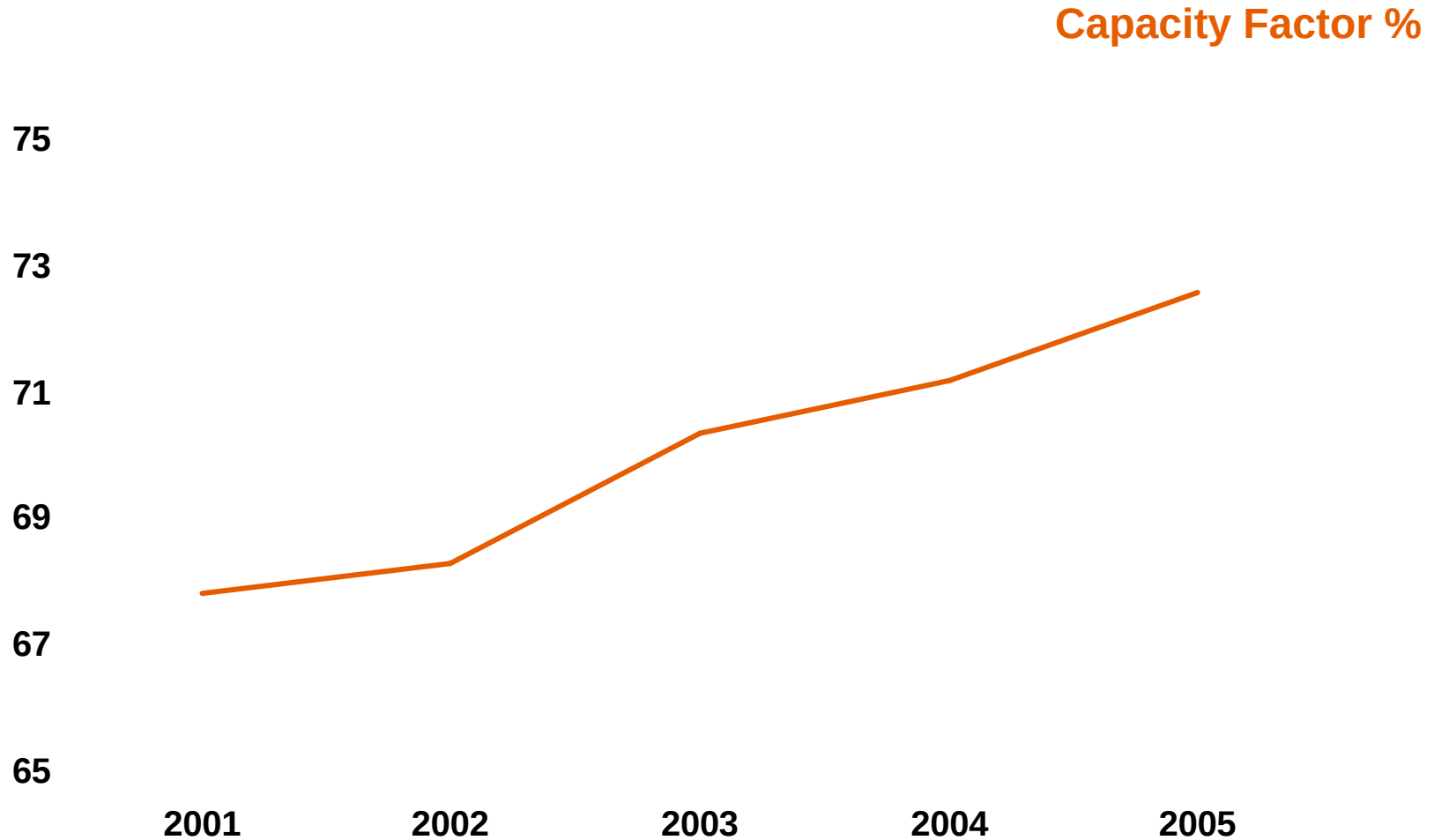
Source: Energy Velocity

50 Low Cost Steam Plants



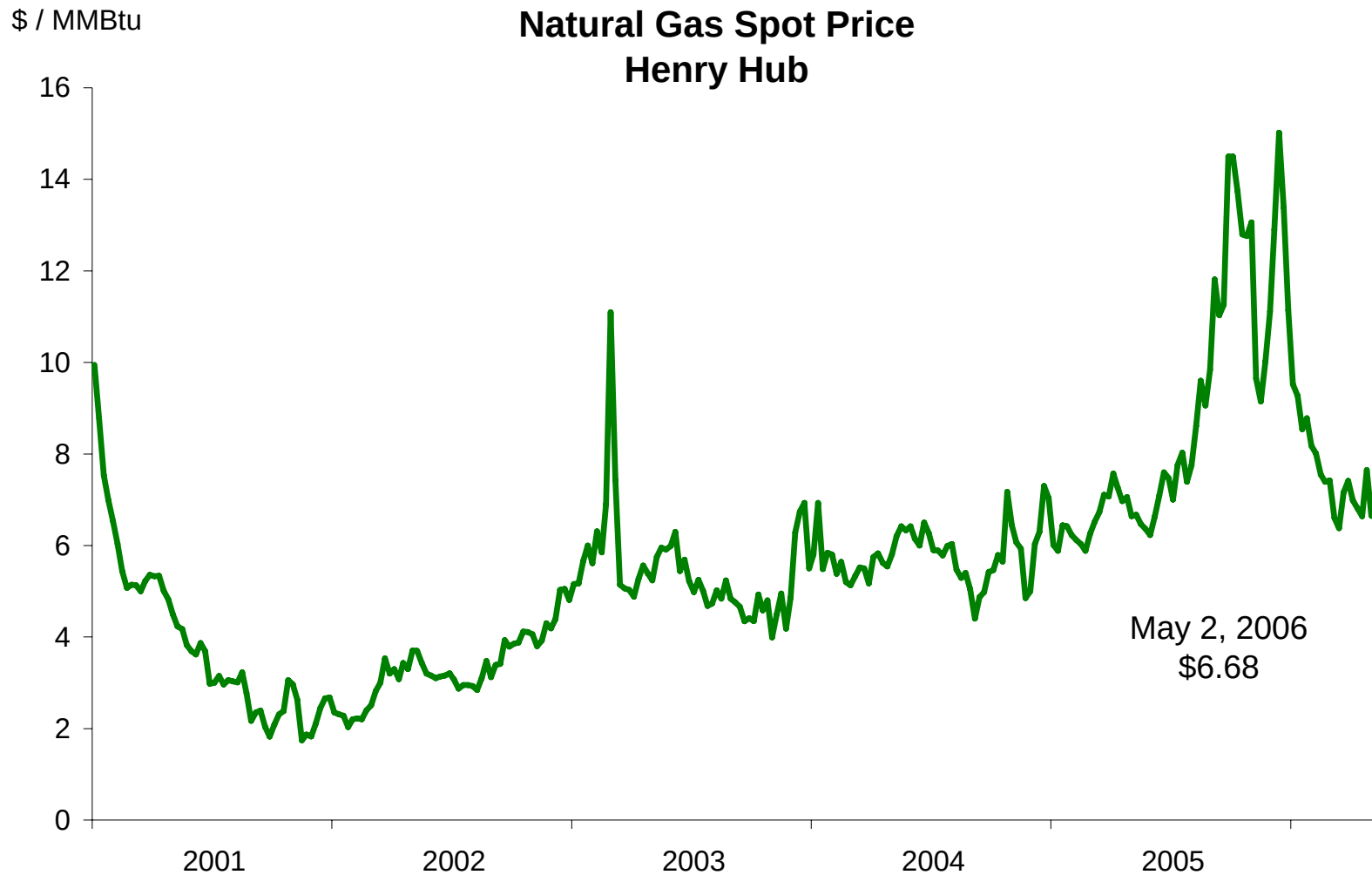
Source: FERC

U. S. Coal Plant Capacity Factors



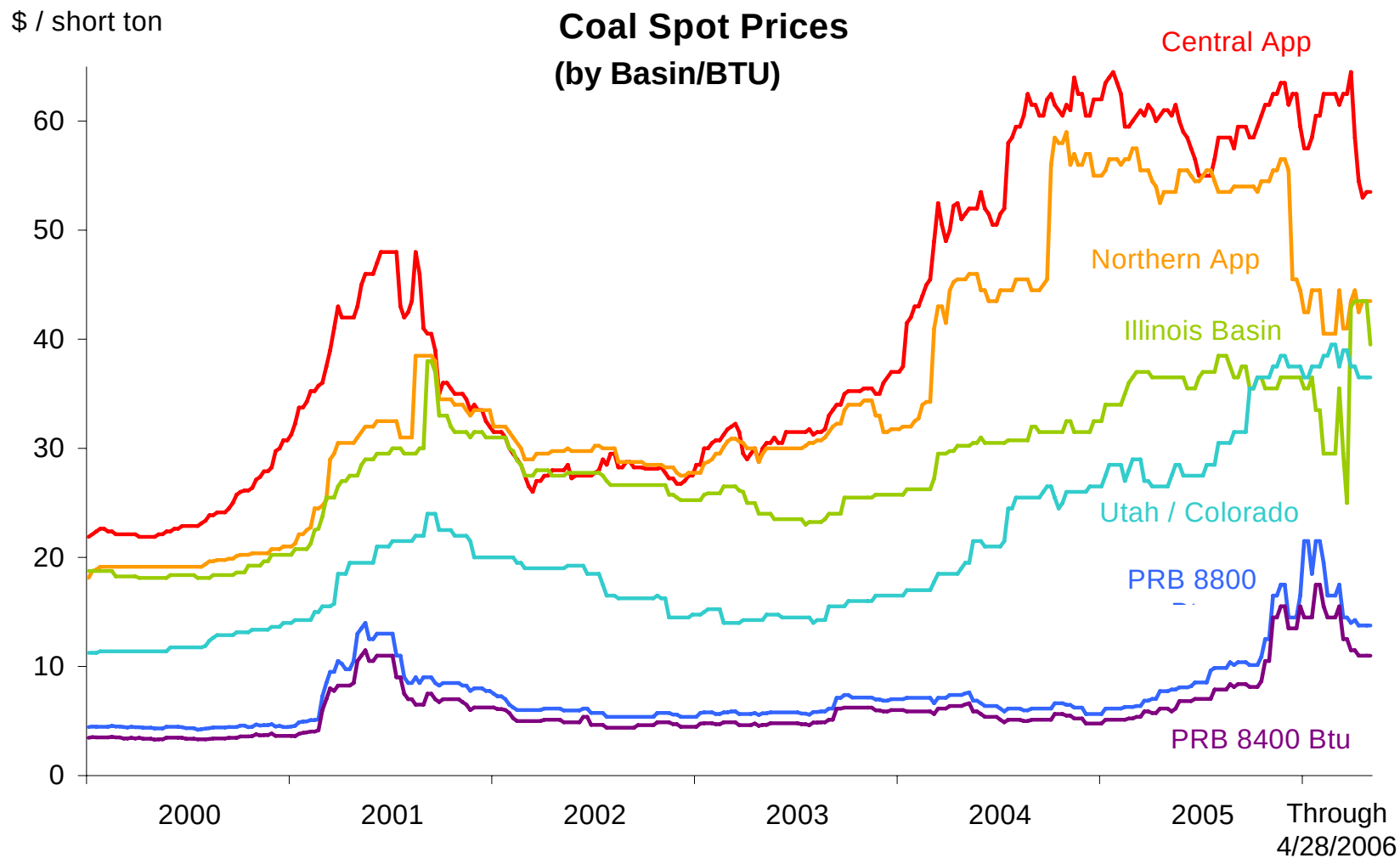
Source: FERC

Natural Gas Spot Price Trend



Source: Bloomberg

Coal Spot Price Trend



SO₂ Allowance Prices 2000-2006

Dramatic rise in SO₂ allowances increases value of low-sulfur coals

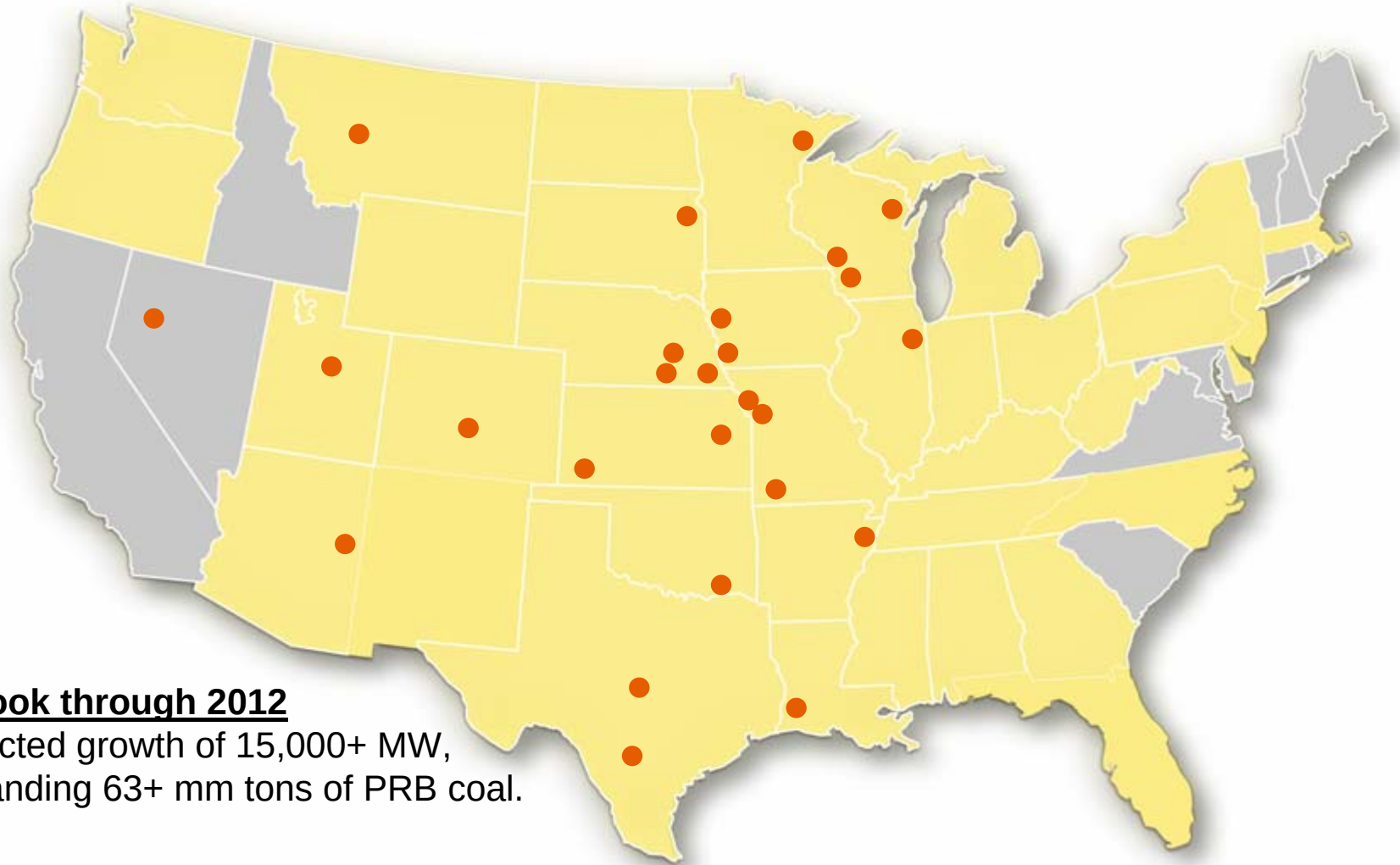


Value of PRB Coal

- **400mm tons PRB coal**
 - = 1.2 billion barrels of oil
 - = 50% of U.S. oil production
 - = 7 trillion cubic feet of natural gas
 - = 35% of U.S. natural gas production
 - Fuel cost equivalent
 - \$6 billion coal cost
 - \$78 billion oil cost
 - \$56 billion natural gas cost

(coal \$15.00/ton, natural gas \$8.00/mmbtu, oil \$65.00/barrel)

Proposed New Coal-Fired Generation Rail-Served in the Western U.S.



Outlook through 2012

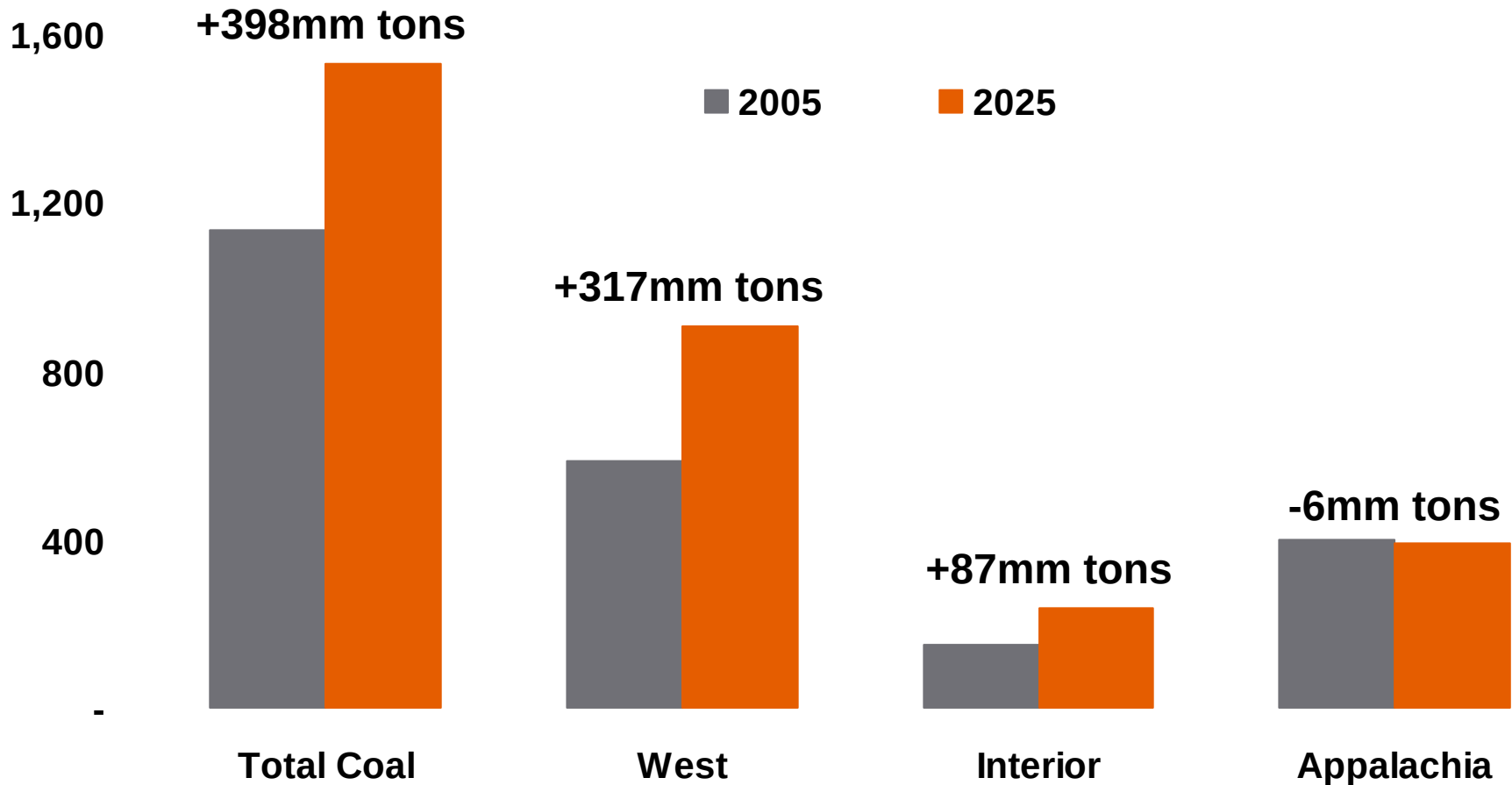
Projected growth of 15,000+ MW,
demanding 63+ mm tons of PRB coal.

Source: Argus

Coal Market Outlook

EIA Supply Forecast

Million Tons



Source: EIA

EIA Coal Forecast: 2005 - 2025

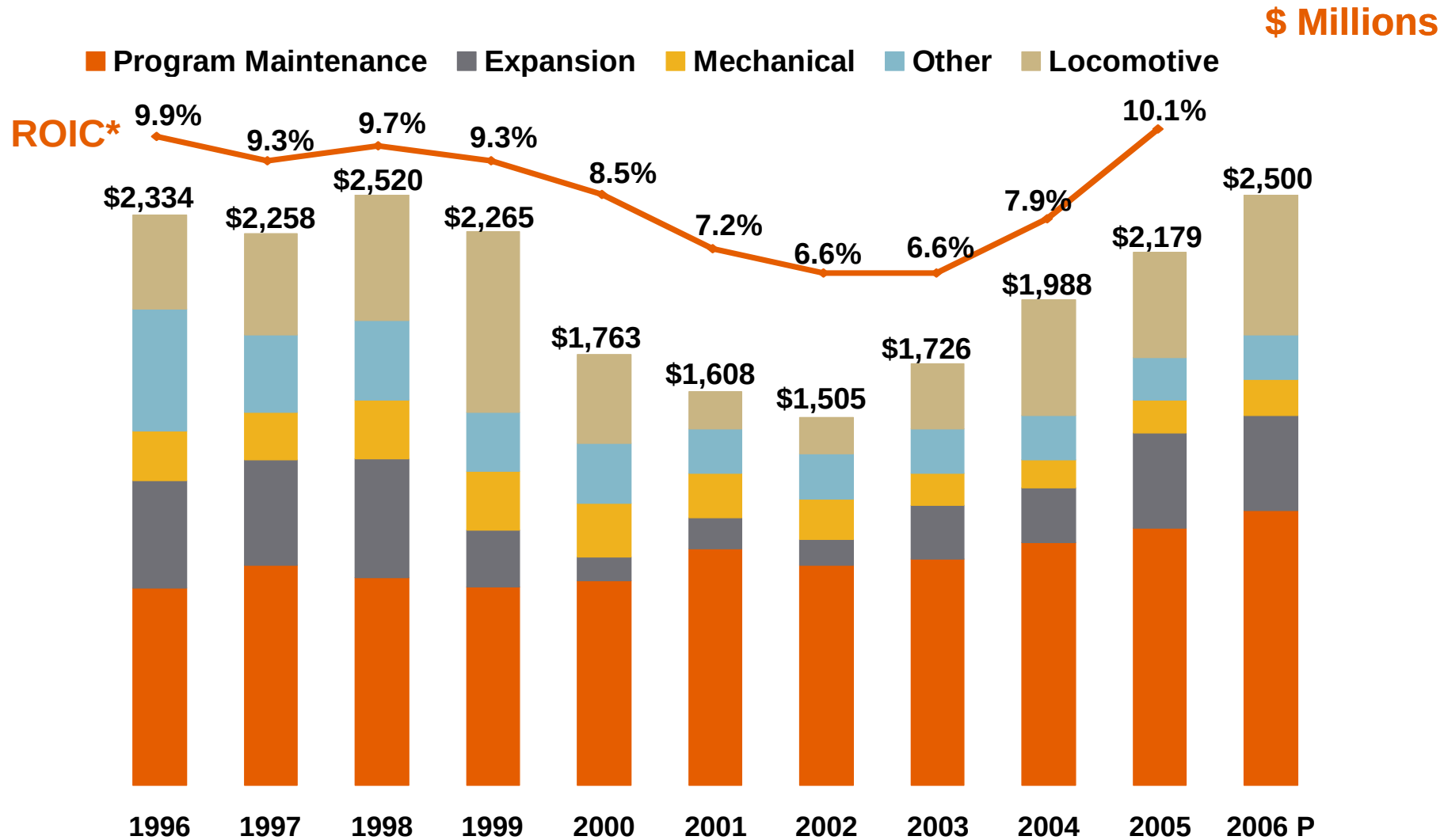
Western coal will capture the majority of projected growth.

- **EIA total growth forecast**
 - **West +317 million tons**
 - **Interior +87 million tons**
 - **Appalachia -6 million tons**
- **EIA forecasts PRB to increase 215 million tons**
 - **41 additional trainloads per day**

Going Forward to 2025

- **Electricity demand**
 - **1.8% annual growth**
- **Coal production**
 - **1.5% annual growth**
 - **Appalachia to decline 0.1% annually**
 - **Interior to grow 0.8% annually**
 - **West to grow 2.4% annually**

Capital Commitments with ROIC



*Adjusted for unusual or nonrecurring items.

BNSF Increased Coal Capacity Investments

\$2.7 billion invested through 2005 and over \$0.4 billion planned for 2006.

\$ Millions

Year	Loco- motives	Cars	Joint line	Corridors	Terminals	Total
1994	\$247	\$22	\$13	\$10	\$2	\$294
1995	247	58	18	44	12	379
1996	118	19	19	41	22	219
1997	160	20	7	63	27	277
1998	235	22	8	134	16	415
1999	270	23	13	49	4	359
2000	56	0	0	13	1	70
2001	0	0	0	0	0	0
2002	0	0	0	0	0	0
2003	85	48	0	8	10	151
2004	102	104	15	3	18	242
2005	149	85	16	32	29	311
2006	<u>180</u>	<u>131</u>	<u>22</u>	<u>109</u>	<u>5</u>	<u>447</u>
Total	\$1,849	\$532	\$131	\$506	\$146	\$3,164

Joint Line Capacity Expansion

Phase II:

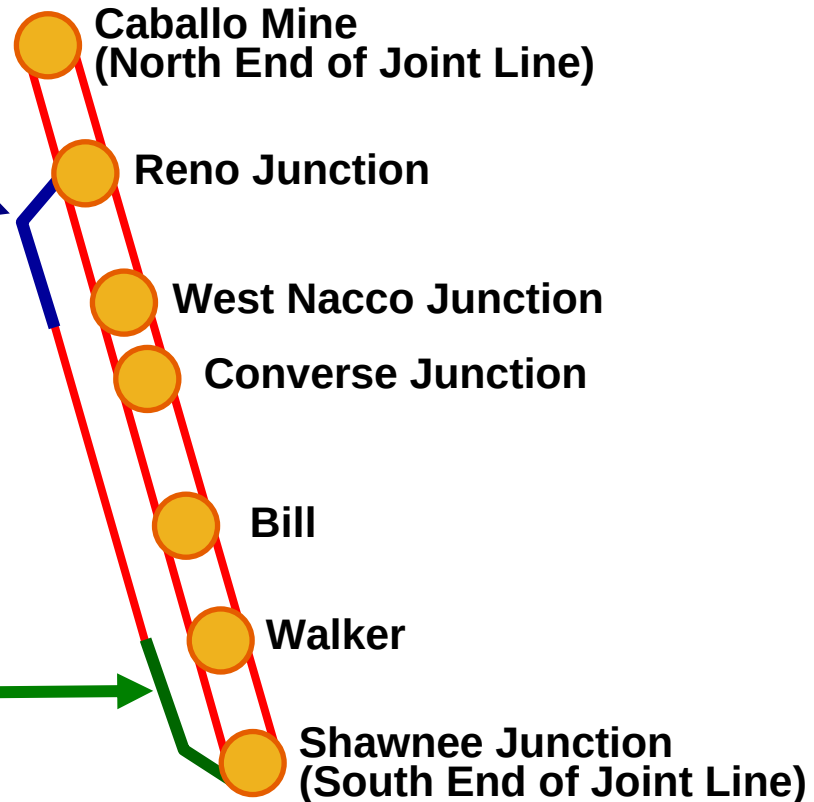
3rd Main 18 Miles

In Service September '06

Phase I:

3rd Main 14 Miles

In Service June '05

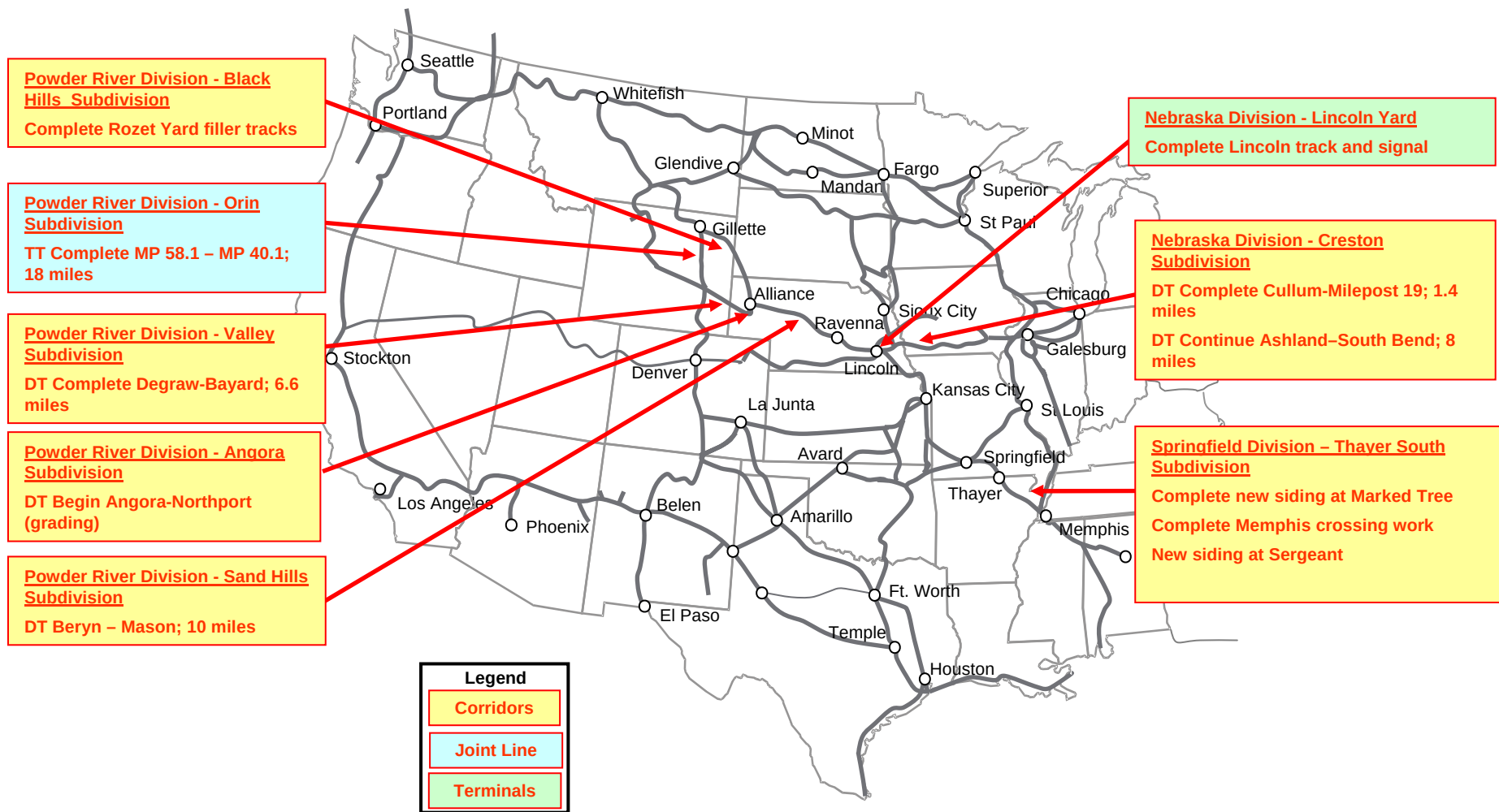


2006 Coal Capacity Expansion

2006 Highlights

- **31.8 miles of double track**
- **18 miles of triple track on Orin subdivision**
- **Complete filler tracks at Rozet**
- **Complete Memphis crossing work**
- **Complete Lincoln yard – track and signal**
- **100 AC GE locomotives**
- **14 train sets – 8 gondolas and 6 rapids**
- **2006 Total \$447 million**

2006 Coal Capital Capacity Expansion Projects



2007-2009 Coal Capacity Expansion Highlights

2007-2009 Highlights

- Over 160 miles of double track in the Powder River, Nebraska, and Springfield divisions
- Bypass tracks in the Texas and Powder River divisions
- Additional locomotive acquisitions
- Additional train set acquisitions

CANAC – A History in the PRB

- 1991:** Development of a phased double track implementation plan
- 1994:** Short, medium and long term action plans
- 1996:** Recommended integrated mainline and minesite operations plan
- 1999:** Analyzed the sustainable operations of the Joint Line as an integrated system
- Mine production
 - Mine-Railroad Interface
 - Railroad Operations
- 2006:** Continued growth expected towards 500 mmT Integrated minesite-railroad-track maintenance operation

Updates from 1999 Analysis

Railroads:

- To achieve 350 mmT target level, recommended completion of triple track on south end (Walker to Shawnee Jct – 14 miles)
 - Completed Spring 2005
- Shortly thereafter, recommended triple track from Reno Jct south
 - Completion Summer 2006 (MP 40 – MP 58)
- Increased train size (1999 to 2006 – average 10% more coal per train), resulted in operational productivity gains on the Joint Line
 - 60 loadings per day in 1999 would have paced 293 mmT
 - 60 loadings per day in 2005 paced at 324 mmT

Updates from 1999 Analysis (cont.)

Mine Sites:

At 350 mmT target level, additional 20 mine site train landing spots needed for fluid operation

- As of 1st Q 2006, 14 spots built

Summary – Preliminary Findings

- Heaviest tonnage line in the world with record tonnages being set - records will continue to be set
- World class operation continues to raise the bar in terms of **throughput capability, capacity and track maintenance** throughout the railroad industry
- Train volume growth and operational variability:
 - **Additional capacity needed to accommodate throughput and buffer capabilities for this growth**
 - **Short-term railroad track expansion currently being refined (in the range of 50 miles)**
 - **Medium-term railroad track expansion being developed**
 - **Continued minesite landing spots construction recommendation (in the range of 14-20 spots)**

BNSF Opportunities and Challenges

- Continued significant demand for low-sulfur western coal
 - Low-sulfur reserves dominated by PRB
 - PRB is the lowest cost coal supply source
 - Limited low-sulfur energy alternatives
- Rail coal transportation will continue to grow
 - BNSF has invested \$2.7 billion to meet demand
- Future challenges
 - Substantial capital investment required for coal
 - Regulatory policy that facilitates investment and expansion
 - Rail re-regulation would inhibit future investments
 - Environmental regulations must keep coal option open

Summary

- **PRB coal forecasted to grow**
- **Railroads can handle increased volume**
- **More capital required to maintain infrastructure and expand capacity**
- **National rail policy must encourage investment**