

BNSF Railway

STB Ex Parte No. 665: Rail Transportation of Grain

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The Staggers Act

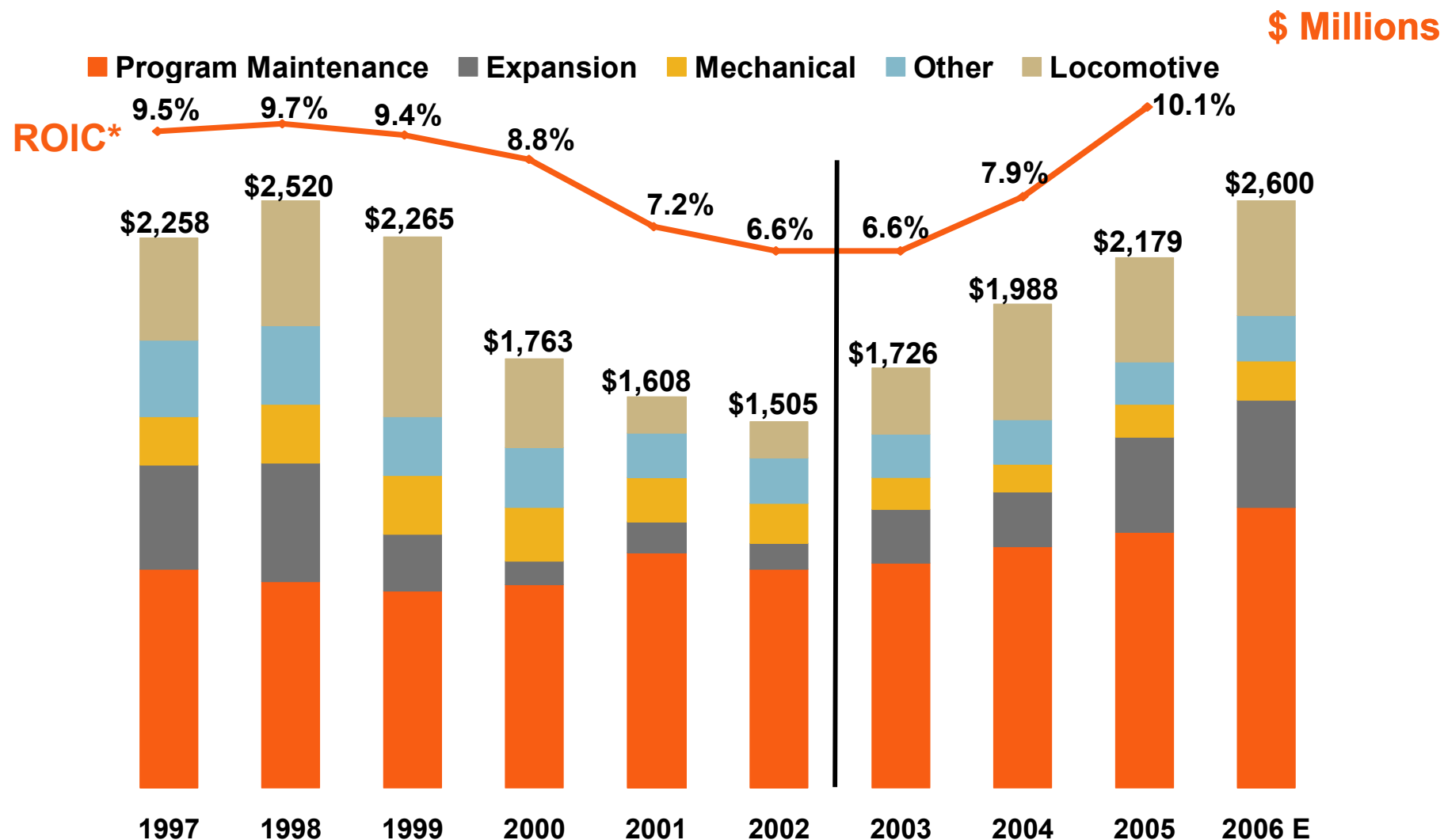
The Staggers Act –

- Allowed deregulation of most rail shipments
- Gave railroads the tools to become more operationally efficient
- Recognized the need for railroads to use market-based pricing in order to generate returns that incent investment
- Allowed railroads to size their networks to the level of sustainable business
- Maintained federal regulation for a core of rail dependent shippers

The Staggers Act is Working

- The recent study by GAO – like all major studies that have examined the Staggers Act – found that most shippers are better off than they had been pre-Staggers
- Over the past 25 years, railroads such as BNSF have –
 - Recovered financial health
 - Significantly increased efficiency
 - Reduced rates 57% in inflation-adjusted terms
 - Invested in capacity as returns have improved
- GAO concluded that “widespread and fundamental changes to the relationship between railroads and their customers are not needed.”

BNSF Capital Commitments vs. ROIC

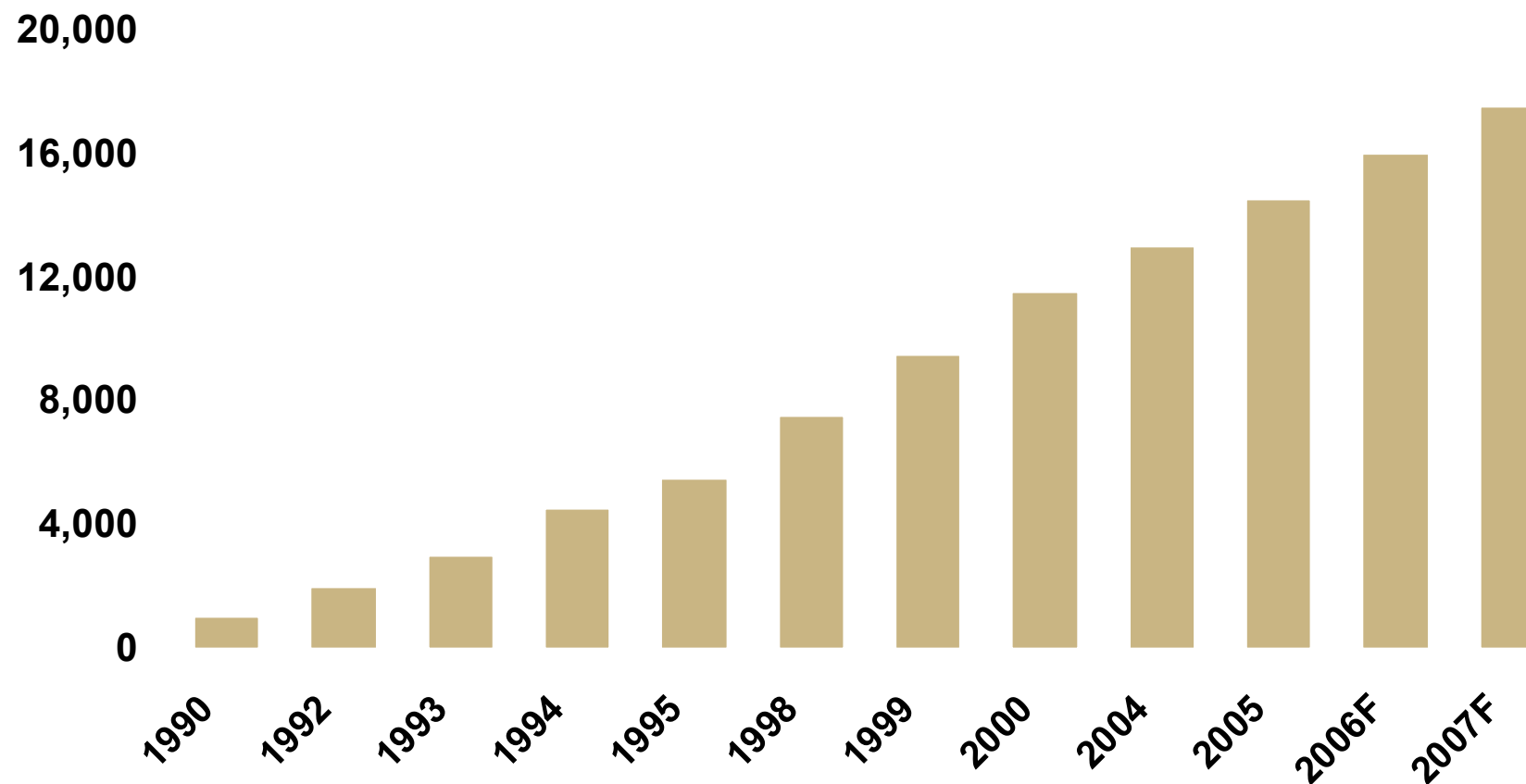


Note: See BNSF web site/Investor Relations for a reconciliation to GAAP



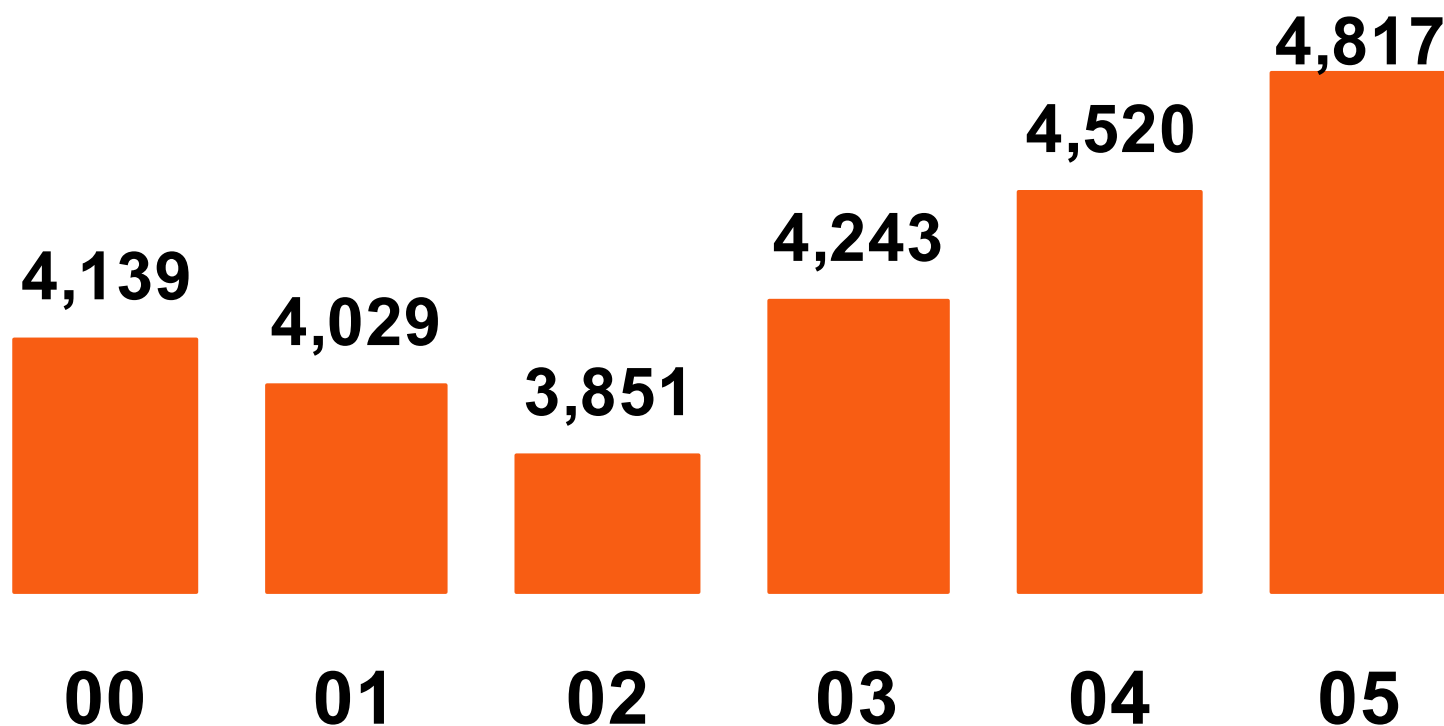
BNSF Covered Hopper Investment

Cumulative Total



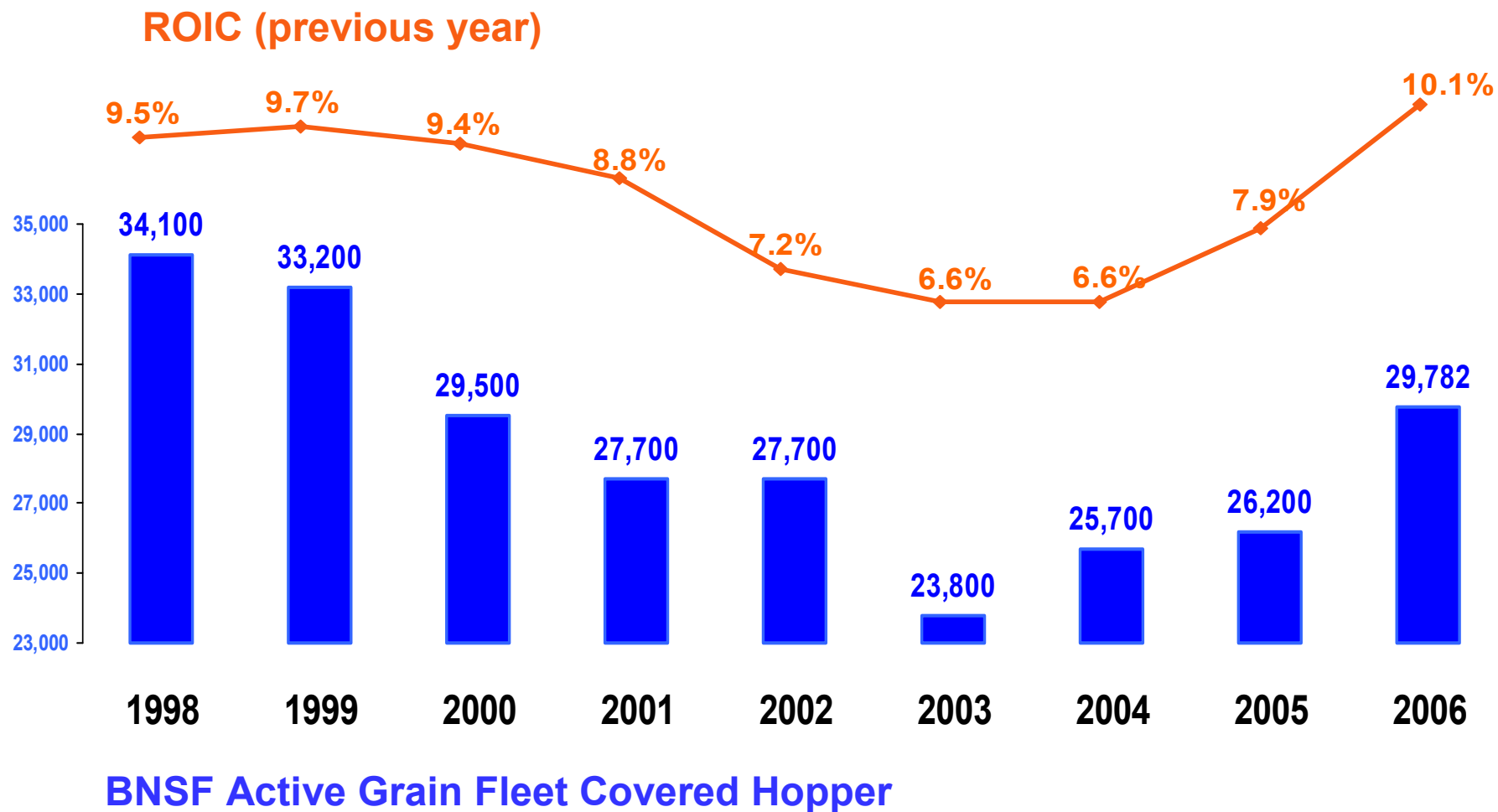
BNSF Locomotive Investment

Peak Road Locomotive Fleet Size

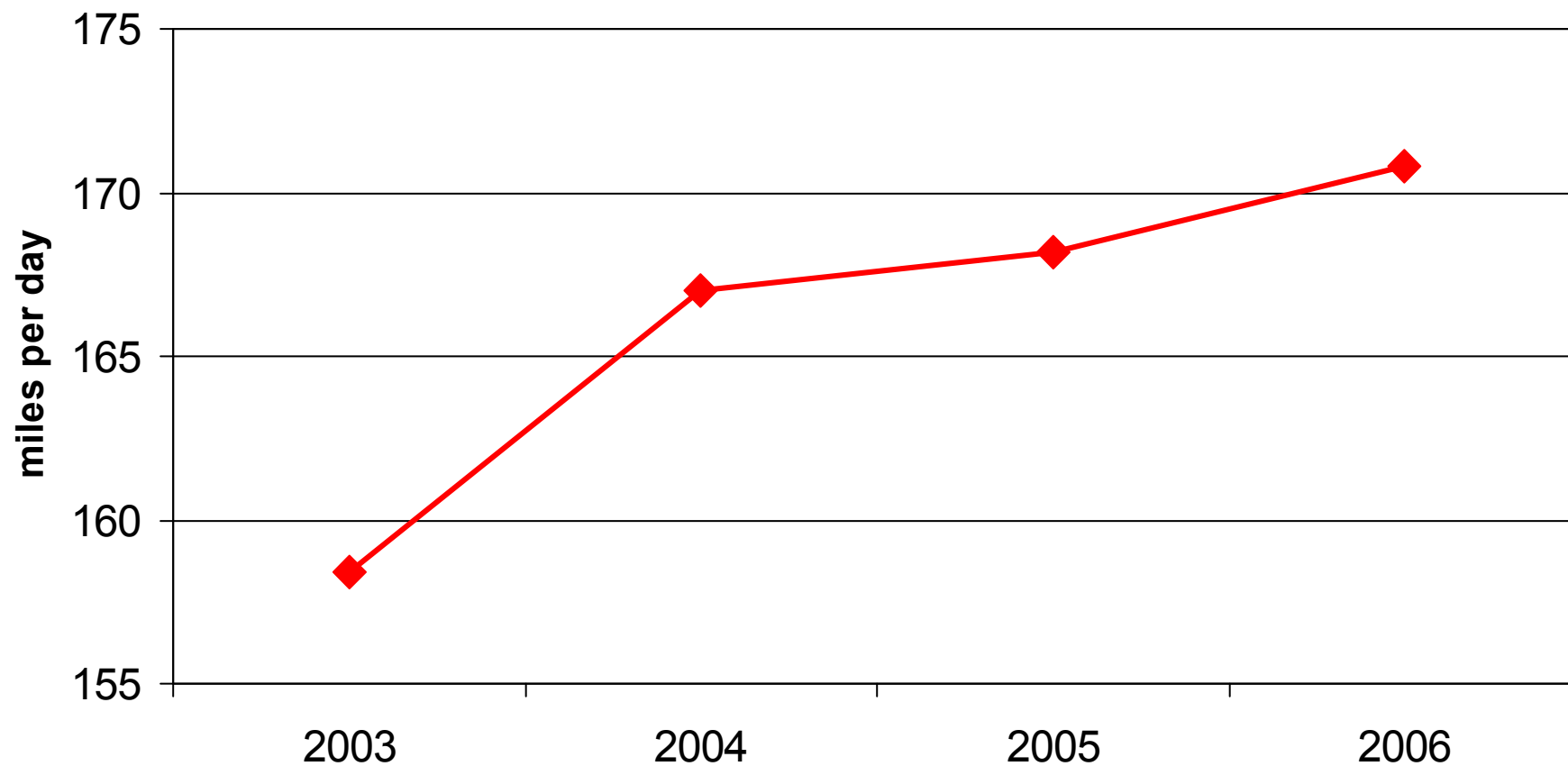


BNSF ROIC Correlated To Investments in New Grain Hoppers

1998-2006



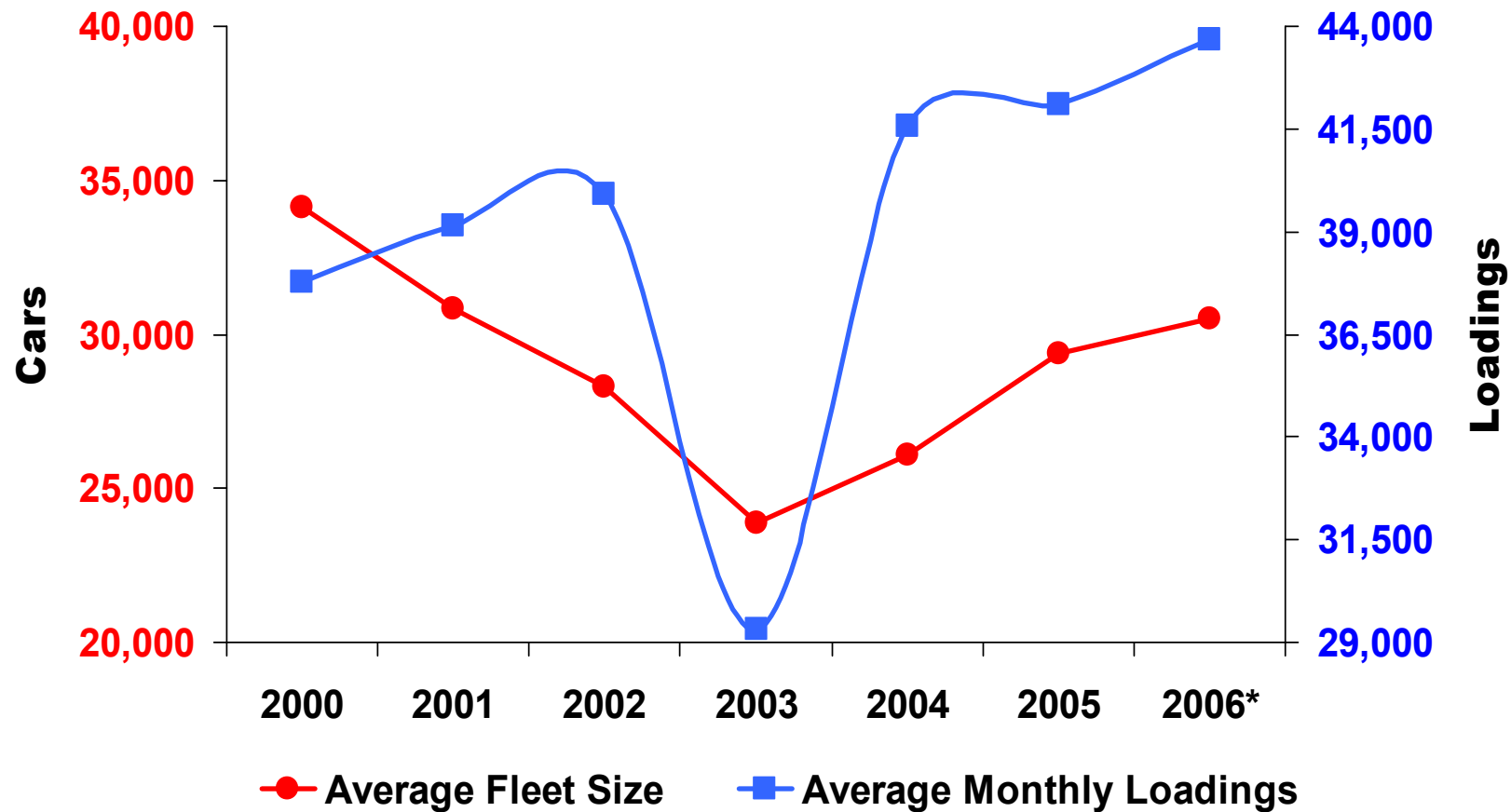
Ag Velocity Has Increased



BNSF average quarterly grain car velocity during first three quarters of year.

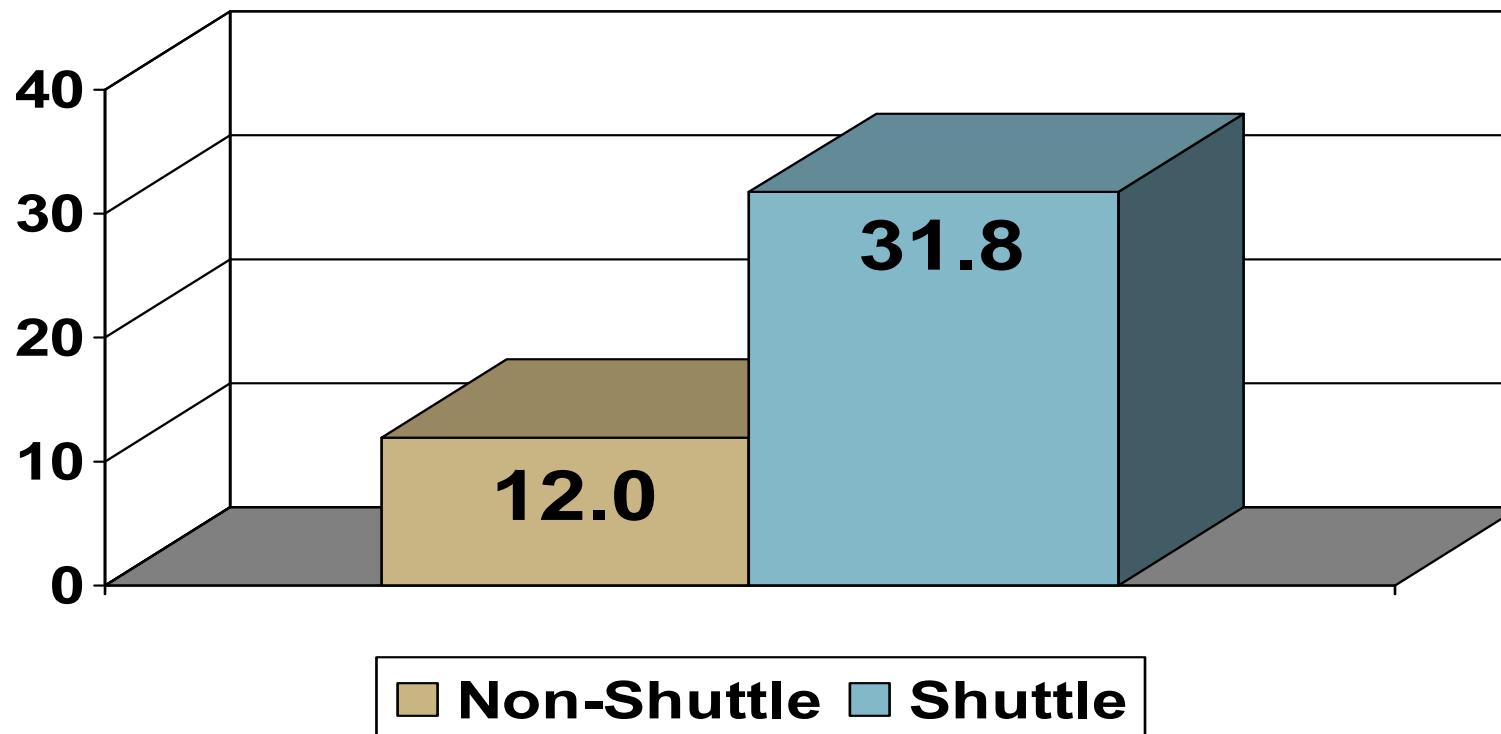


Ag Capacity Has Improved With Shuttles

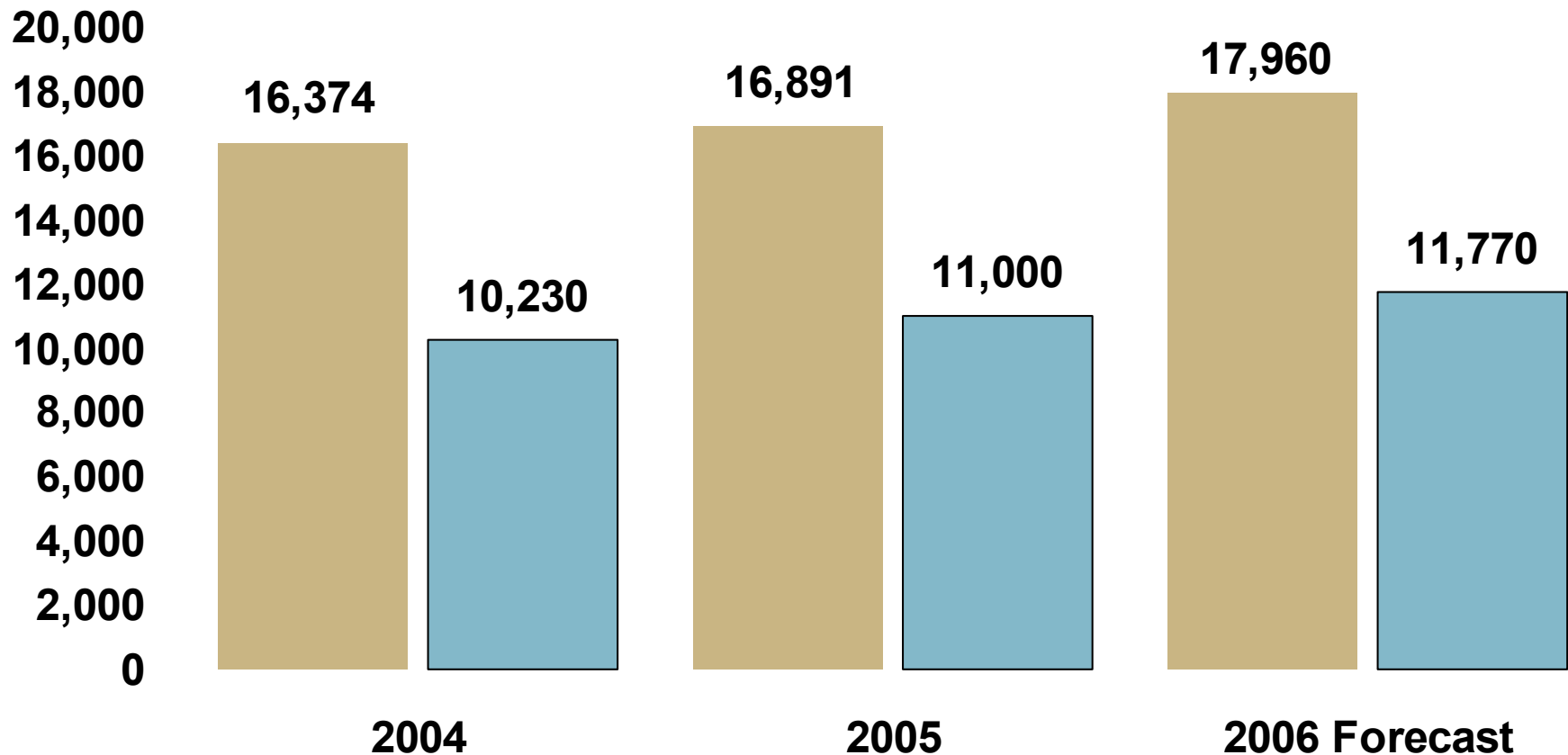


Shuttle Velocity Increases Capacity

Average Car Cycles Per Year



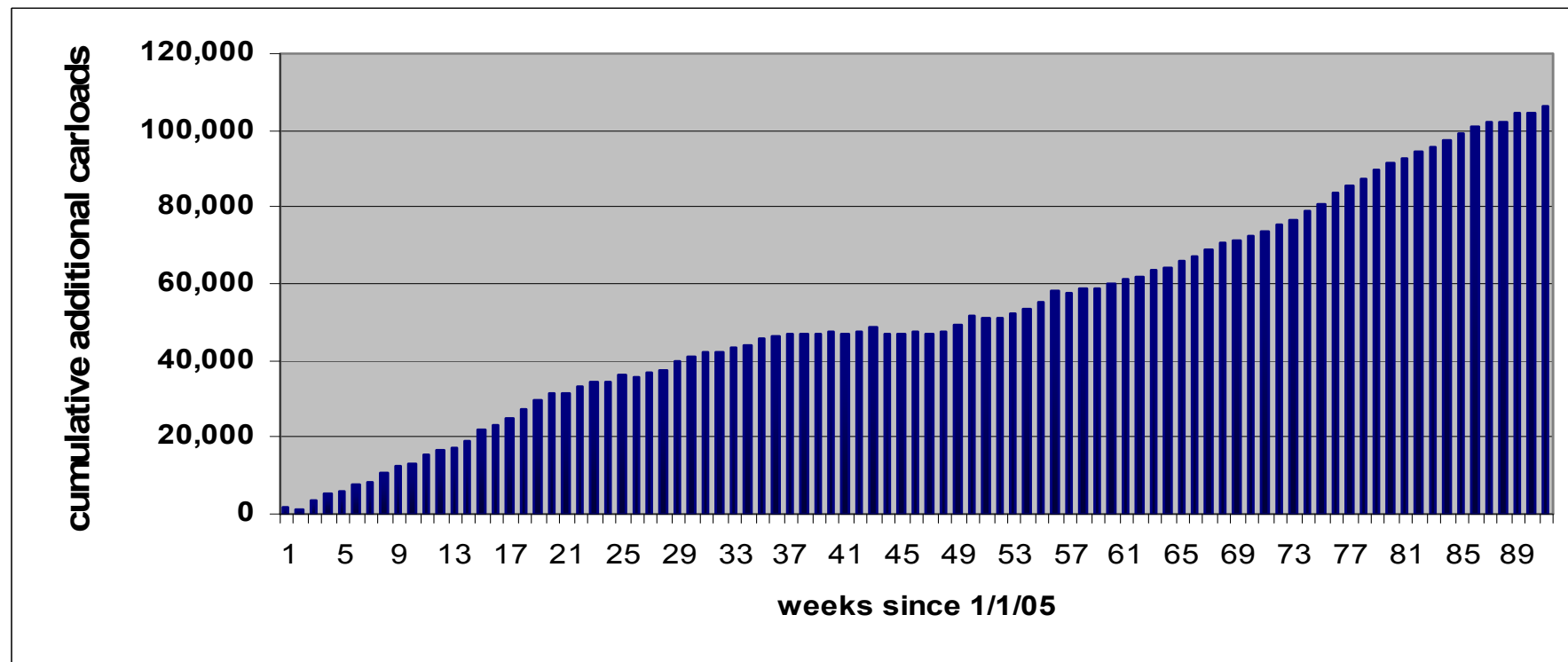
Increases in Shuttle and Non-Shuttle Fleets



■ Avg Cars in Non-Shuttle Service ■ Avg Cars in shuttle service

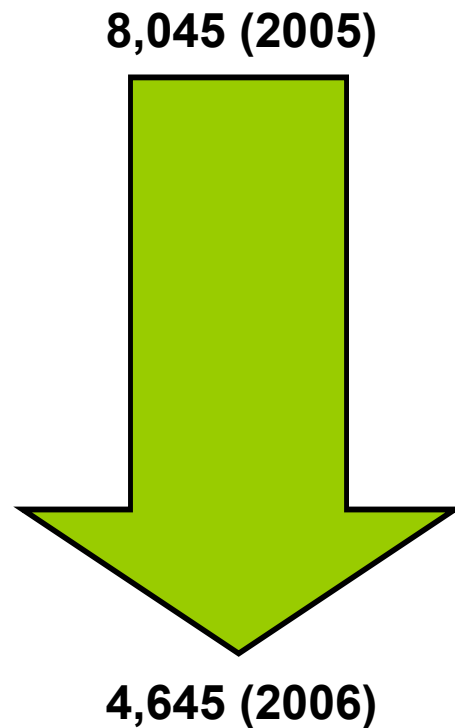
BNSF Grain Carloads Are Up

Since 2005, BNSF has loaded over 100,000 grain carloads more than its historical average.

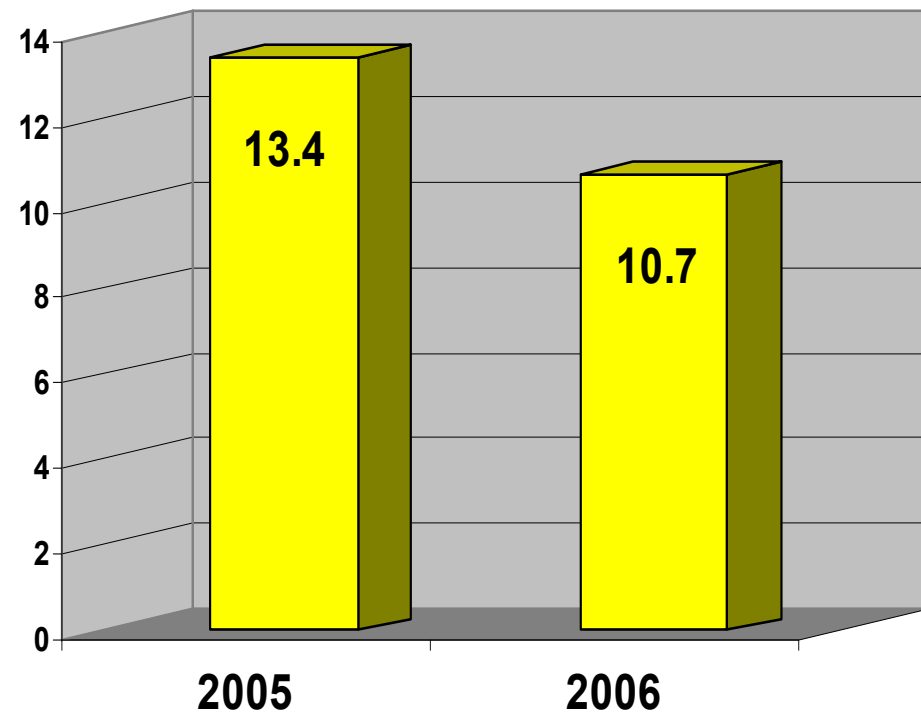


Late Orders Have Declined

**Average Weekly Late Orders
Have Declined 42% YOY...**



**... and Average Days to Fill Those
Late Orders Have Declined 20% YOY.**



Change in 2006 late car orders by week through 10/2/06 compared with previous time period in 2005.

Cost Changes Since 1980

1980



\$40,795

Average Cost of New Hopper

\$.71/bu.

Non-shuttle PNW Rate

2005



\$73,000

(79% increase)

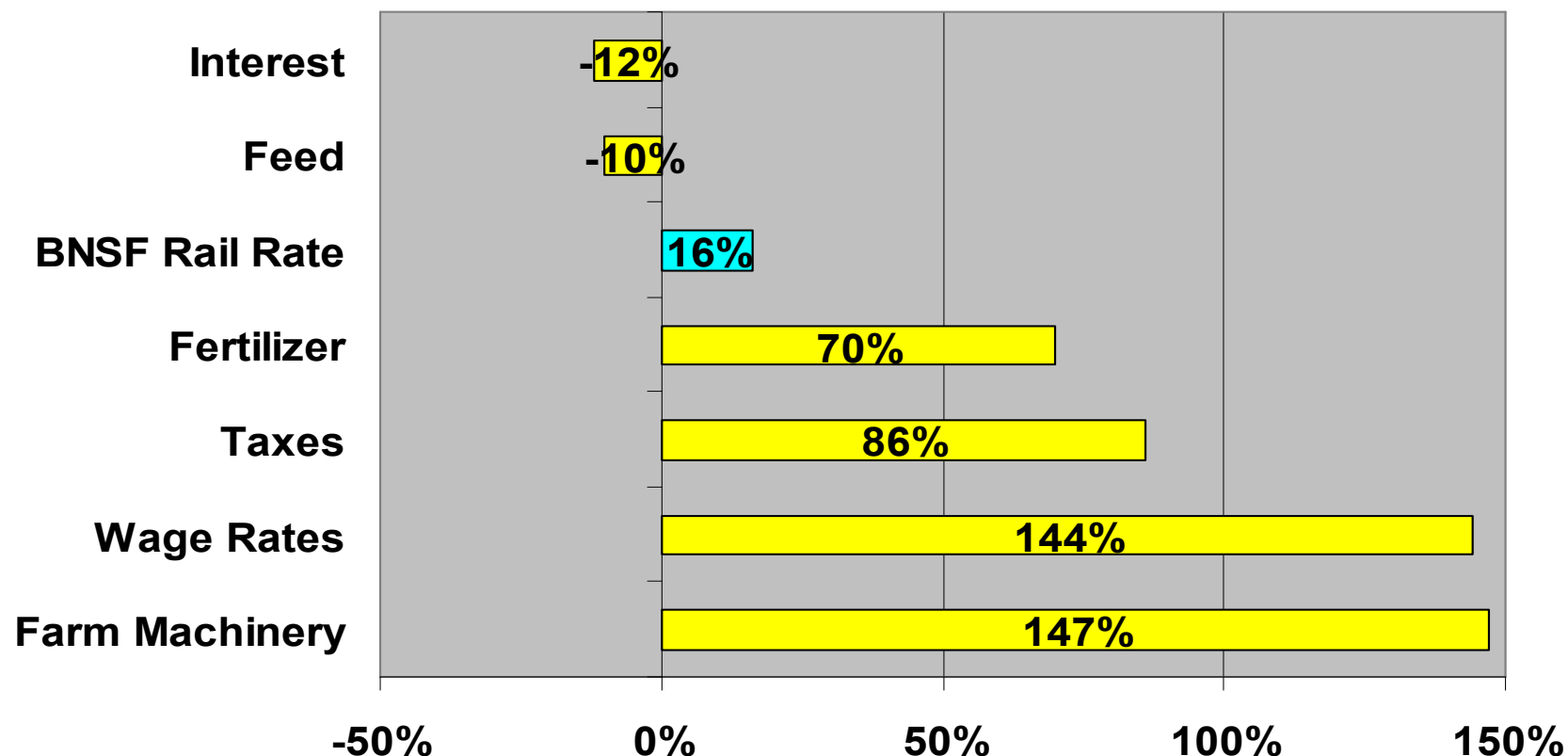
\$.82/bu.

(15% increase)



MT Rail Rates Compared With Major Farm-Related Input Costs

Cumulative Cost Change Since 1981

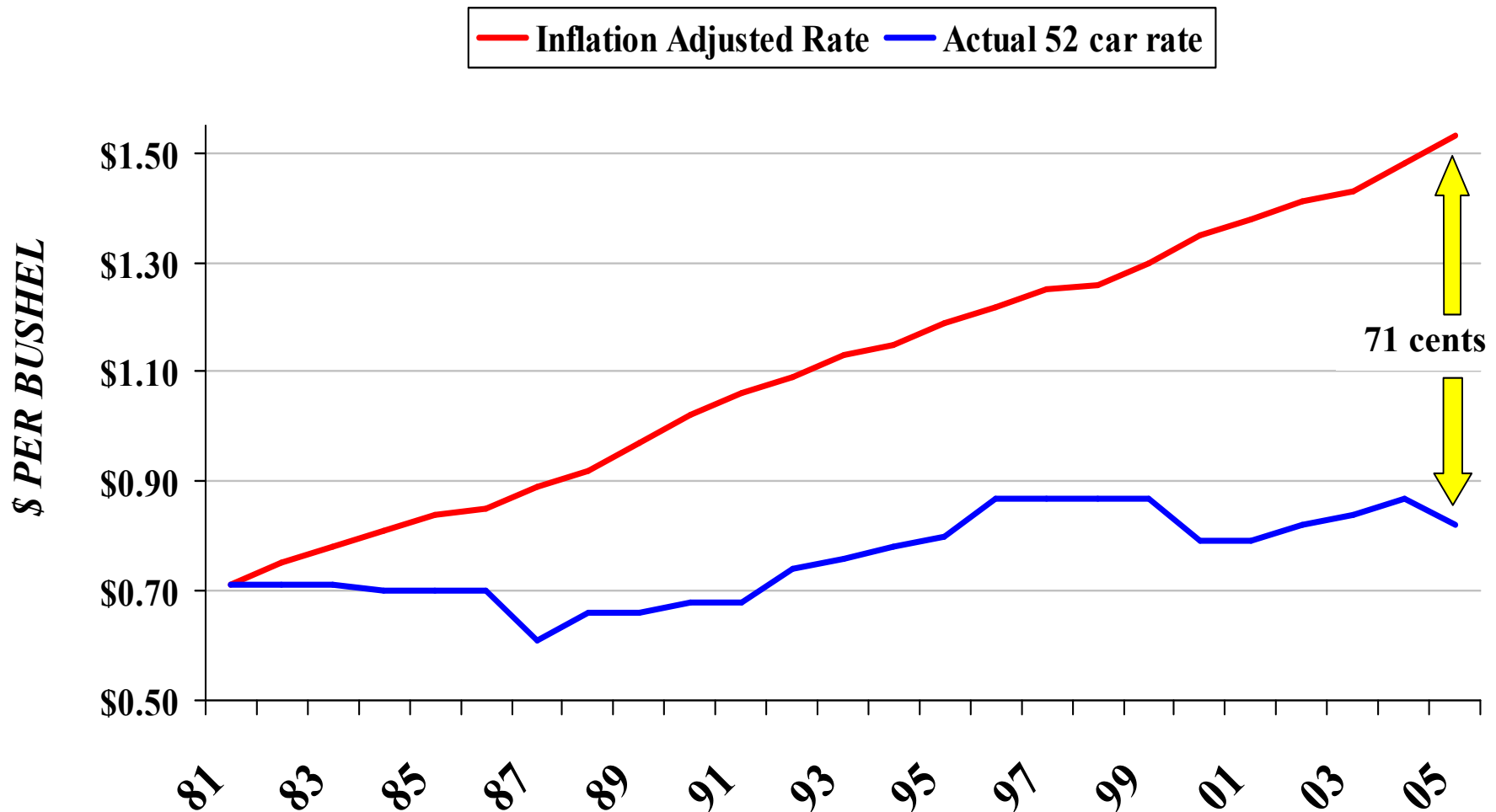


* All rates through August 2006. Rail Rate 52-car to PNW.

Sources: USDA Crop Reporting Board Statistical Reporting Service; National Agricultural Statistical Service



Inflation Far Exceeds Wheat Rate Changes

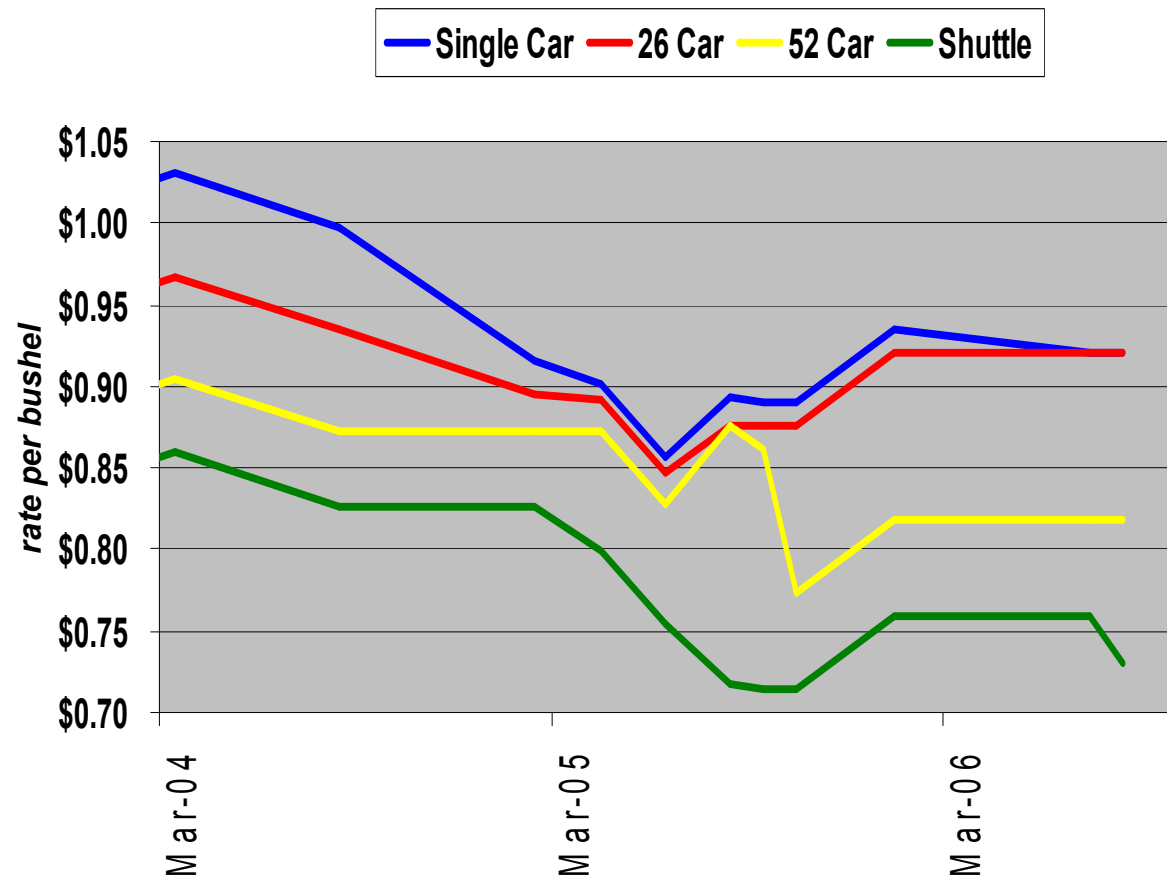


Inflation-adjusted lowest non-shuttle rate calculated utilizing Consumer Price Index (CPI) factor multiplied by wheat rail rates from Great Falls MT with base year of 1981. Rates through August 2006.



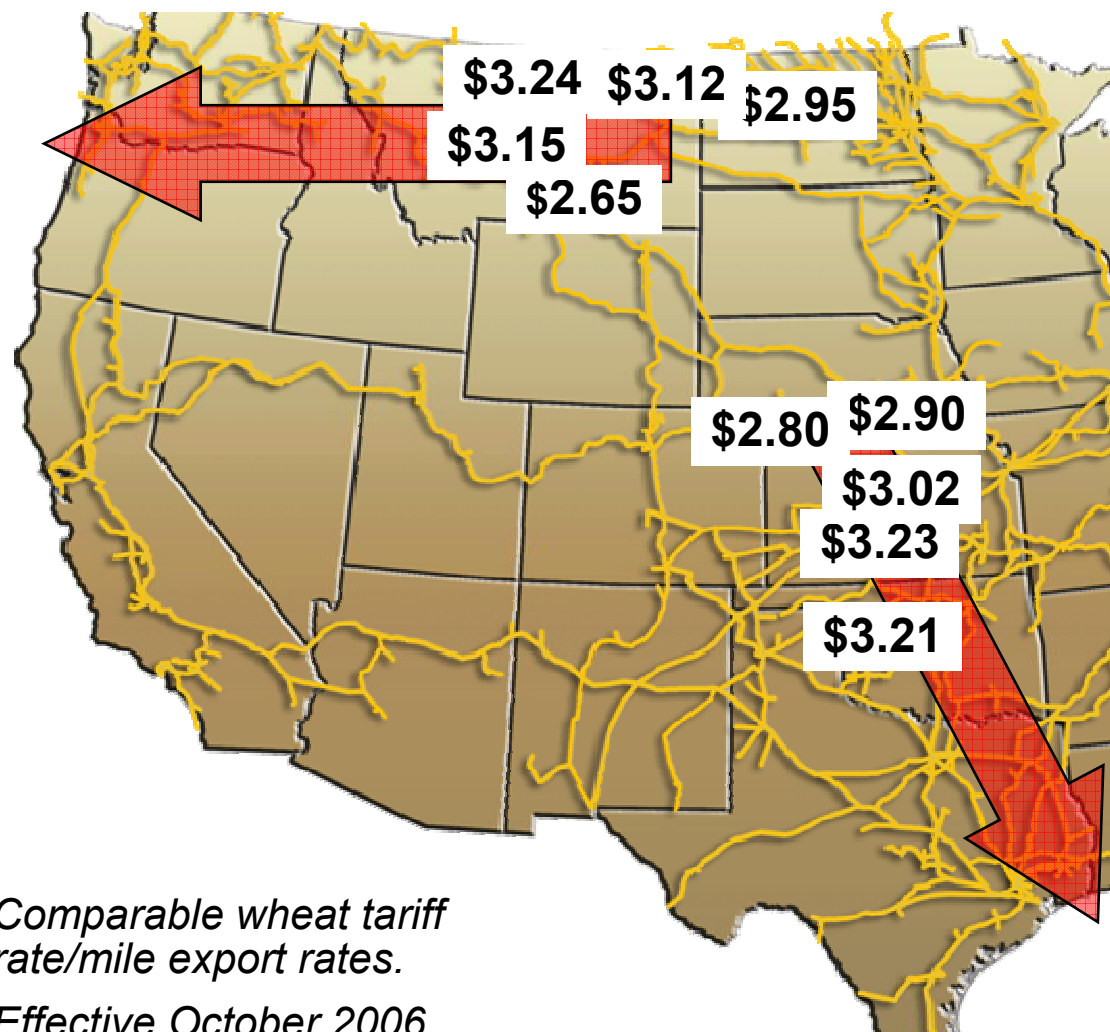
Wheat Rates Have Declined

- **Singles: - 11%**
- **26s: - 5%**
- **52s: - 5%**
- **Shuttles: - 15%**



* Origin wheat rail rates from Great Falls to PNW. Rates through 10/1/06

Comparable Wheat Export Tariff Rates



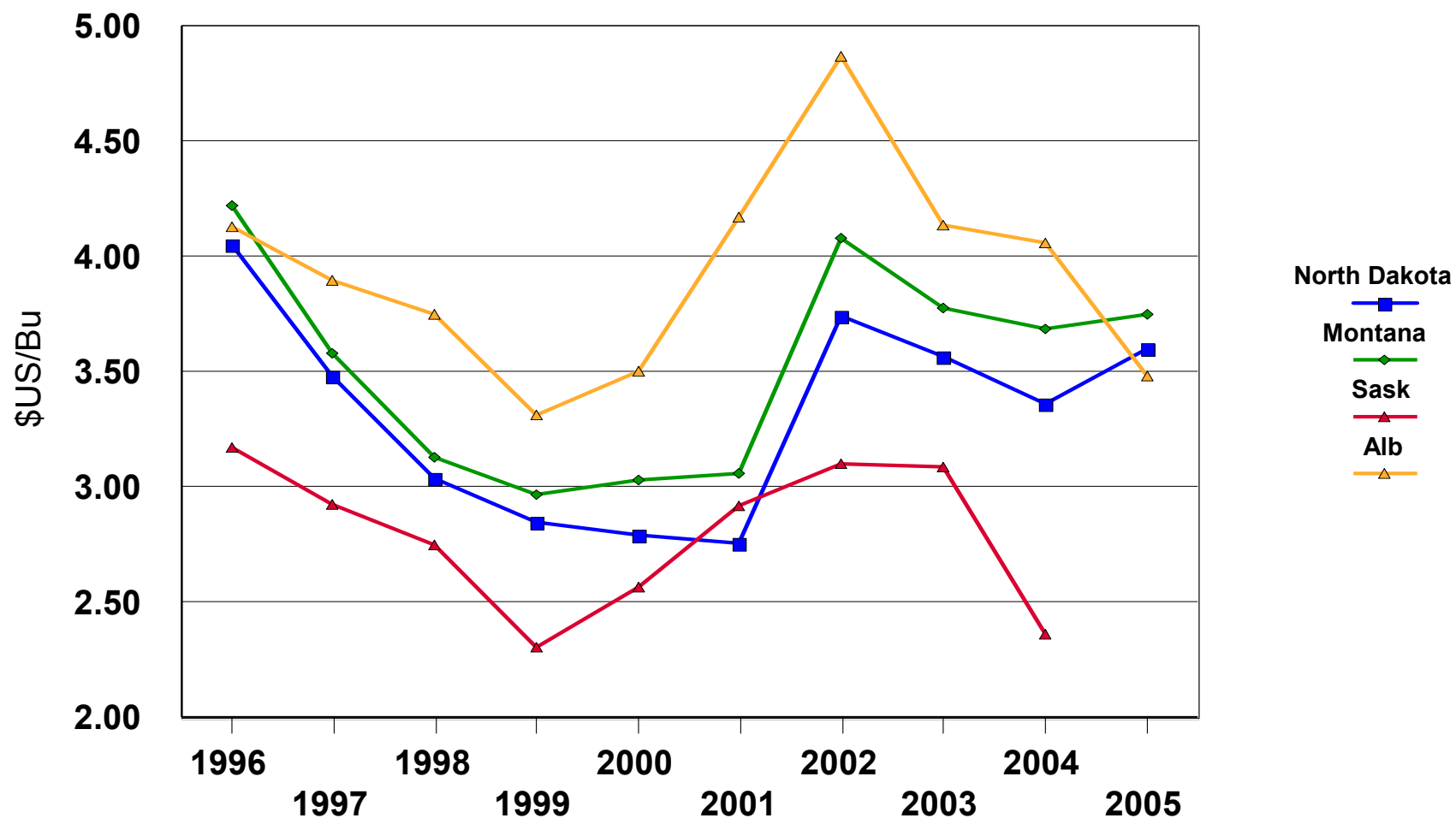
• Northern PNW:

- Billings MT
- Collins MT
- Havre MT
- Macon MT
- Berthold ND

• Southern TX Gulf:

- Edison NE
- Hastings NE
- Hutchinson KS
- Salina KS
- Shattuck OK

Canadian Producers Receive Lower Prices



HRS/CWRS Comparison of Prices Received by Producers. Dr. William Wilson, Montana State University

Summary

- **BNSF forecast reasonable Agriculture returns, AND INVESTED**
- **BNSF investments & velocity focus**
 - **Increased Capacity**
 - **Improved Service**
- **Investment + Operational Improvements = Greater Capacity and Productivity**
- **Result: Better service and value for our customers**

Issues for the Future

- The fundamental principles of the Staggers Act continue to be valid – the system is working
- BNSF must have an incentive to continue to invest in Agriculture
- But the current process for judicial review is not providing small shippers with reasonable access
- BNSF supports the Board's efforts to reform the small rate case process to ensure that shippers have expeditious and affordable access

Thank you for your attention