

# BNSF Railway

*Mississippi Valley Freight Coalition*

## **BNSF and America's Railroads: Navigating Uncertain Times**

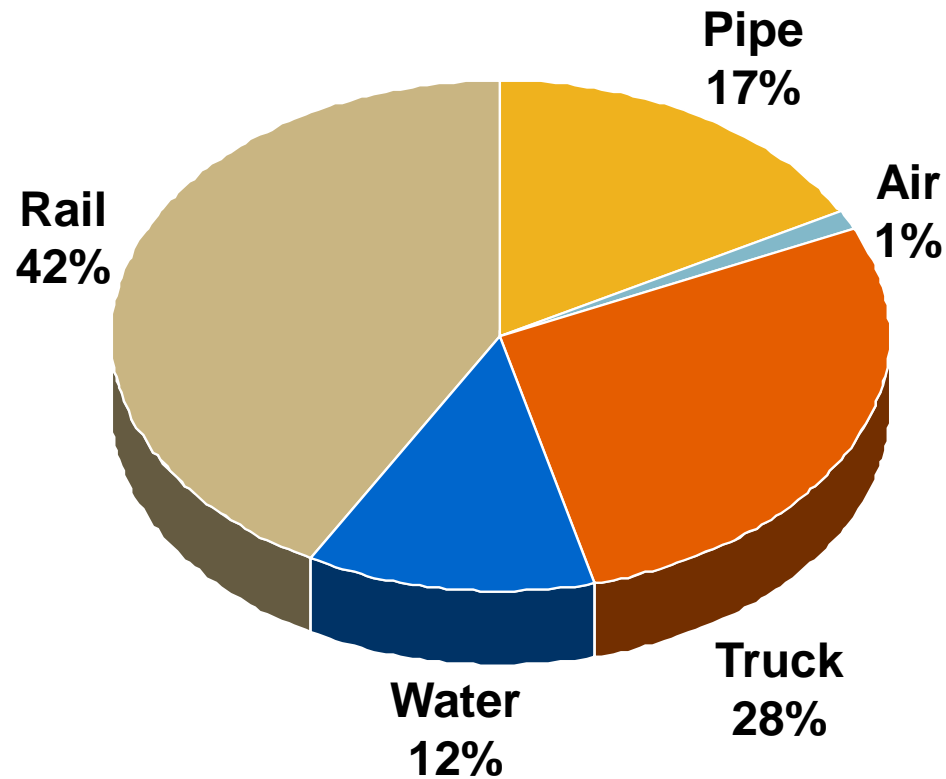
*Paul E. Nowicki*

*April 15, 2009*



# U.S. Freight Transportation

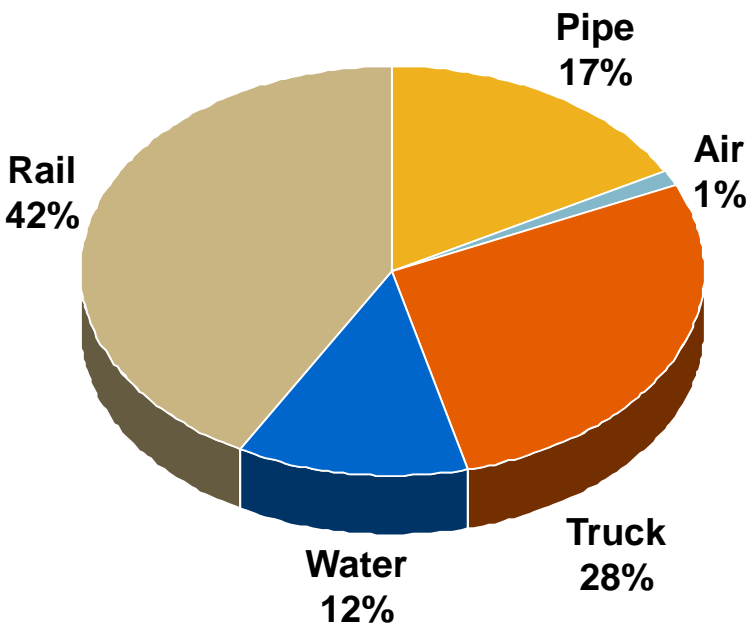
## Intercity Ton-Miles, by Mode



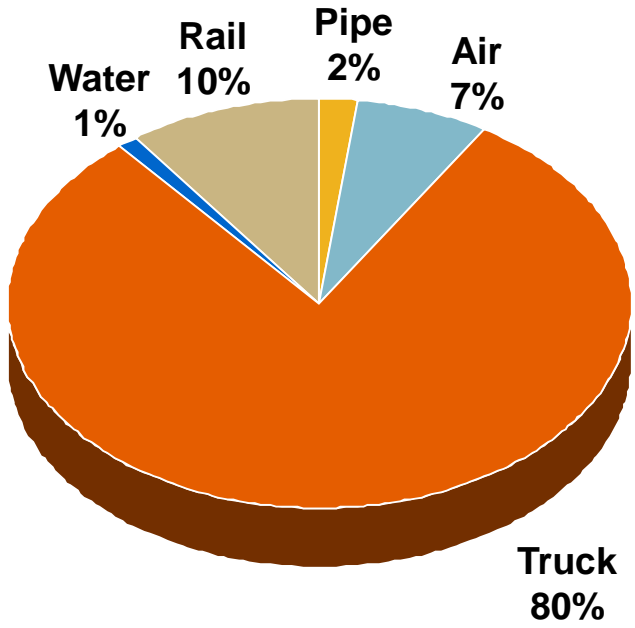
Source: Eno Transportation Foundation

# U.S. Freight Transportation

## Ton-Miles



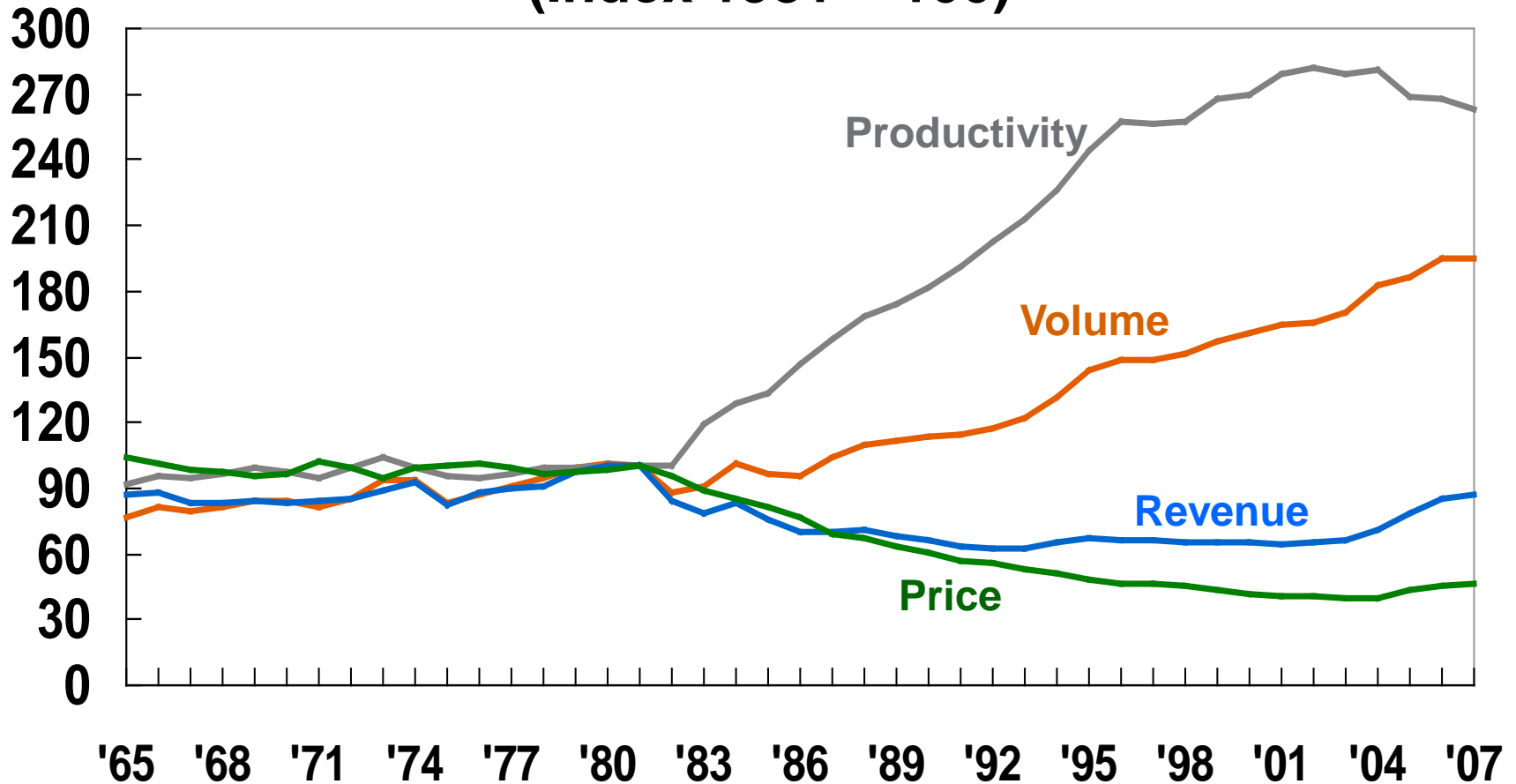
## Revenue



Source: Eno Transportation Foundation

# U.S. Freight Railroad Performance

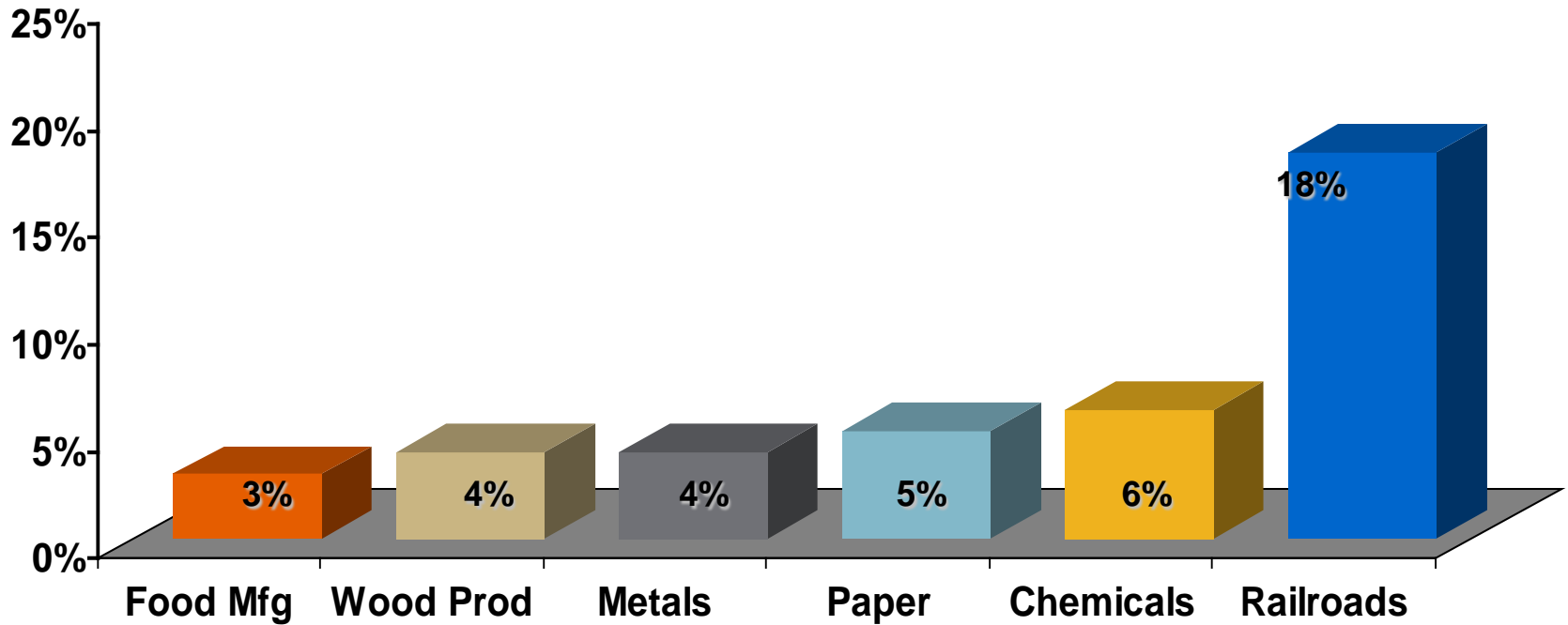
(Index 1981 = 100)



Source: AAR

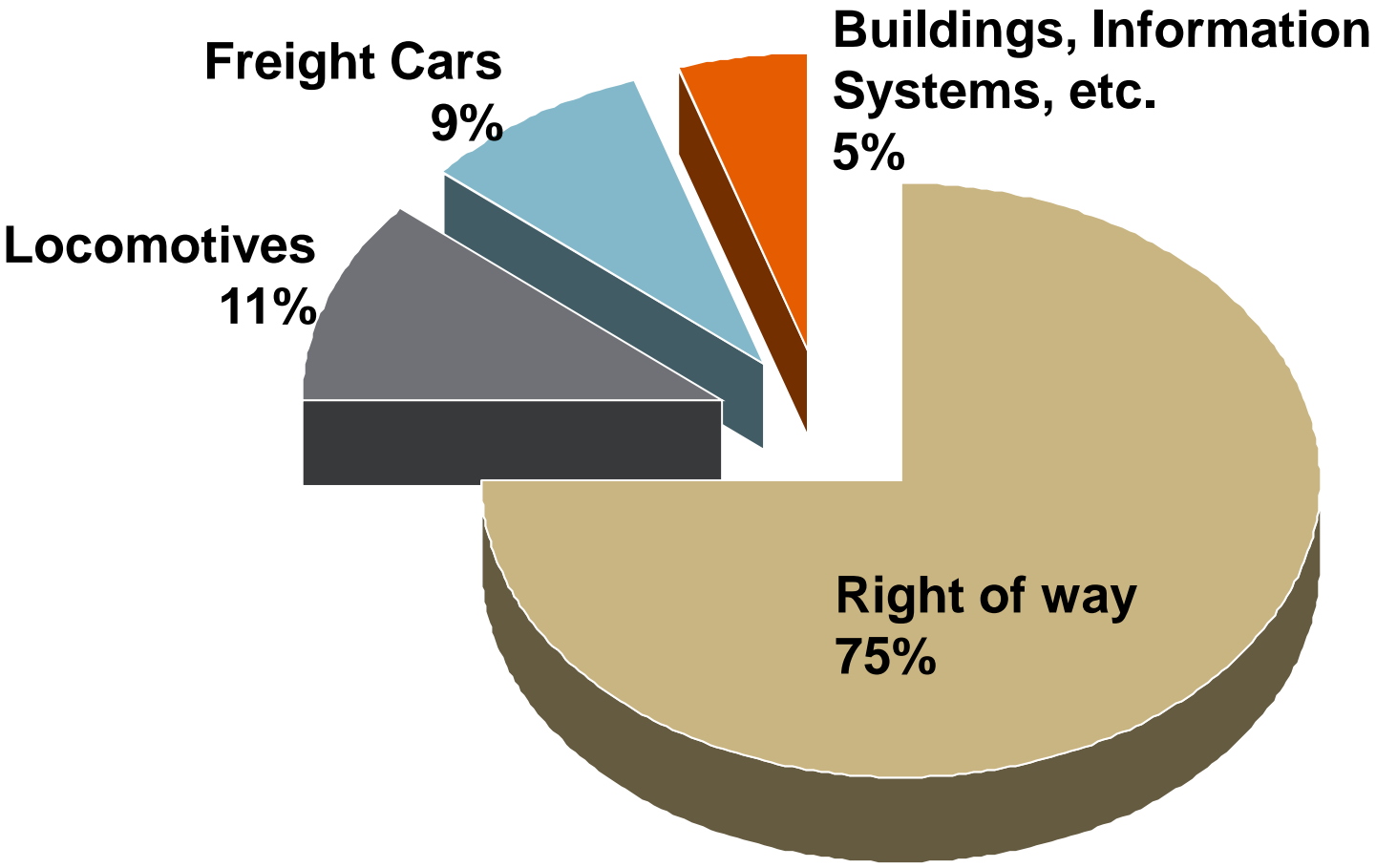
# Railroading is America's Most Capital-Intensive Industry

## Capital Expenditures as a % of Revenue\*



\*U.S. Bureau of the Census

# Rail Industry Investments



Source: Transmatch Consulting

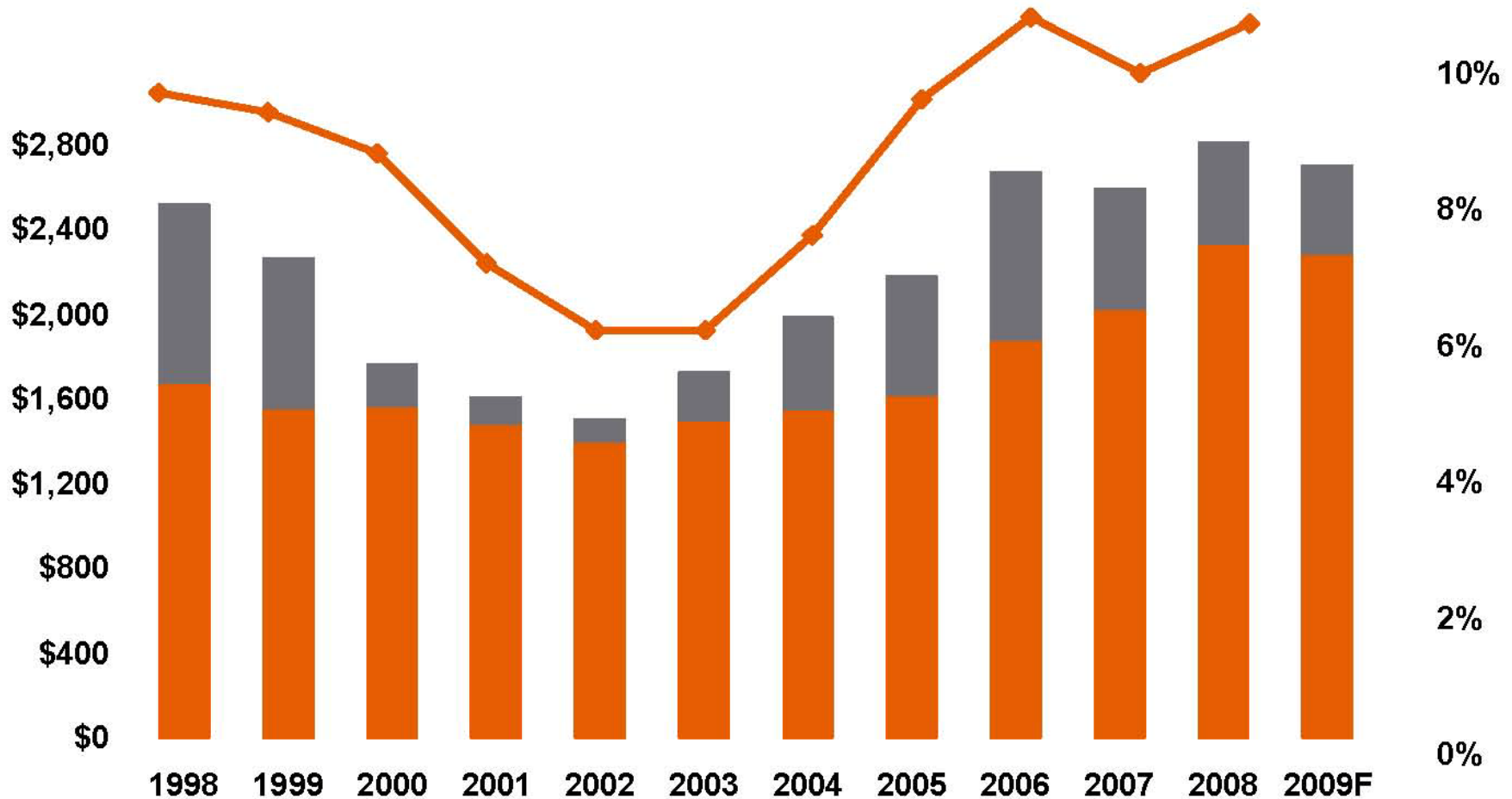
# Capital Spending vs Profitability

\$ Millions

Replacement Capital

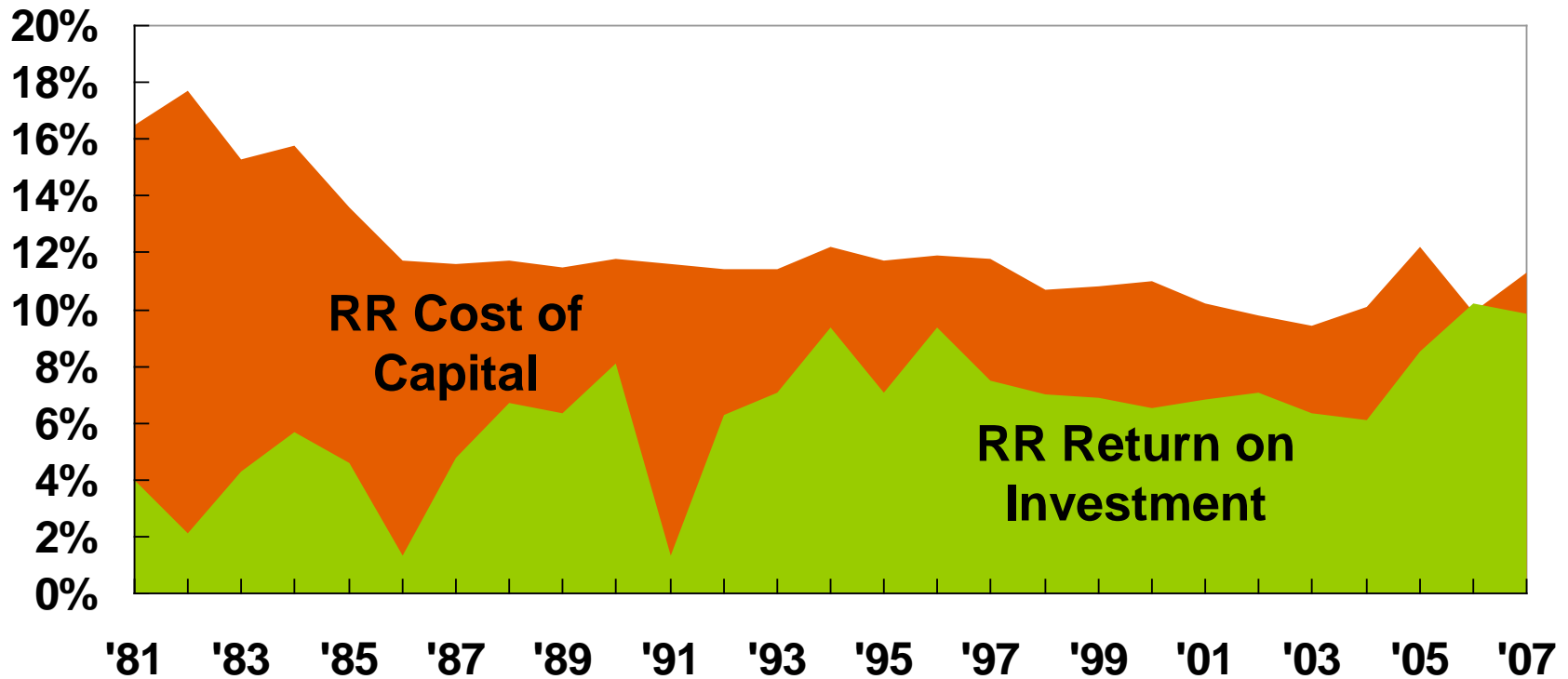
Expansion Capital

ROIC



# Railroads Have Not Earned Their Cost of Capital

## Class I RR Cost of Capital vs. Return on Investment

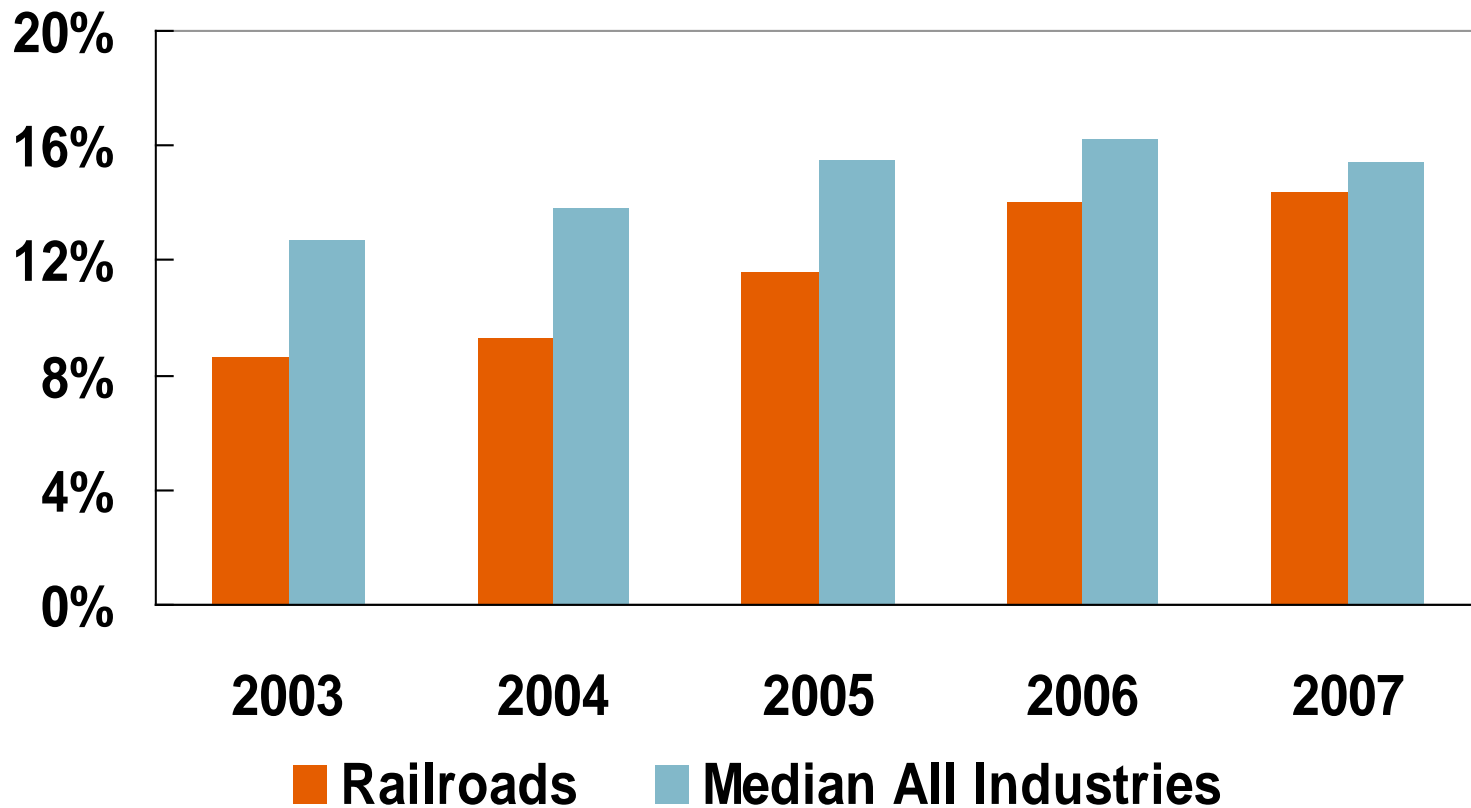


Source: STB



# RR Profitability is Below Average Even in Era of "Record Profits"

## Return on Equity: Railroads vs. All Industries

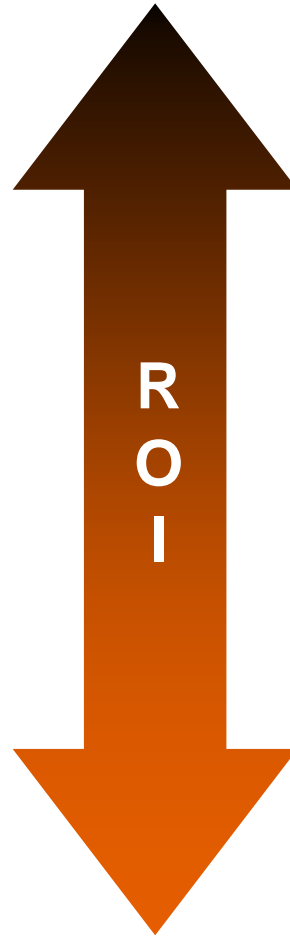


Source: Value Line

# Capital Investment Reality

## If ROI > cost of capital:

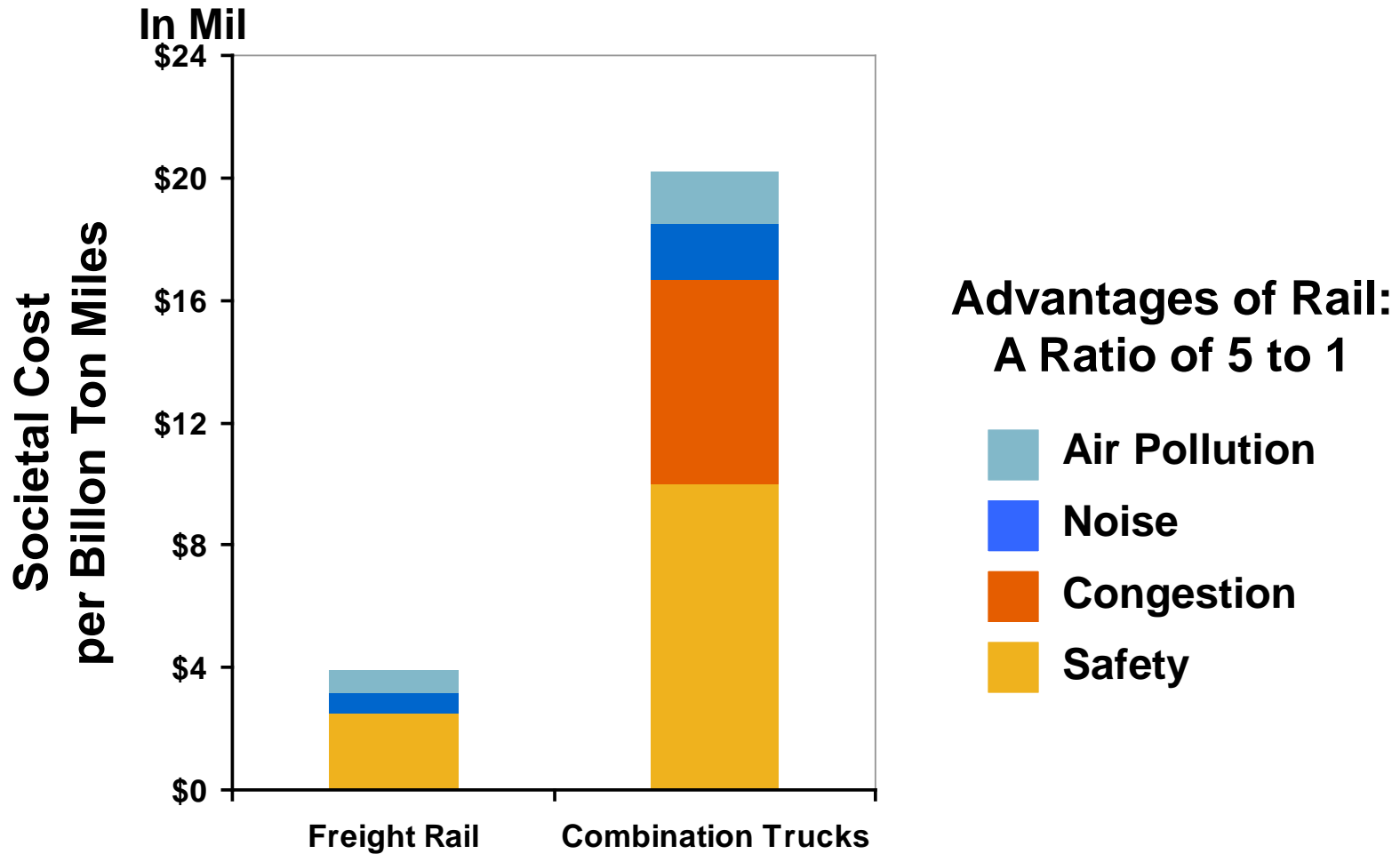
- Higher capital spending
- Stronger physical plant; more and better equipment
- Better service
- Sustainability



## If ROI < cost of capital:

- Lower capital spending
- Weaker physical plant and equipment
- Poorer service
- RR industry declines/ not sustainable

# Public Policies Should Encourage Use of Freight Rail



# Rail Emits a Fraction of Total U.S. Greenhouse Gas Emissions

**Rail = 2.6% of GHGs**

**Trucks = 21% of GHGs**

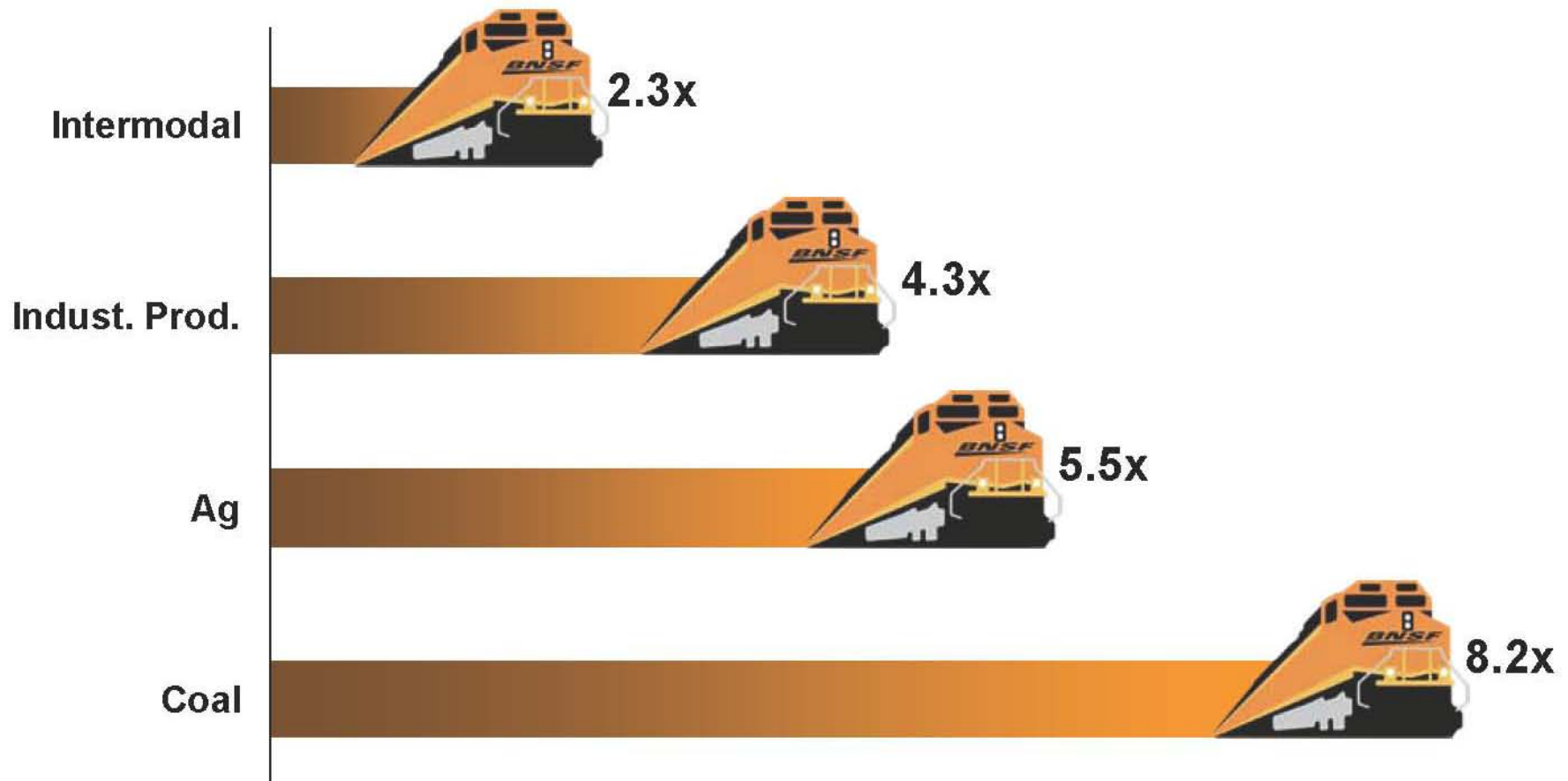




**What gets  
436 MPG?**

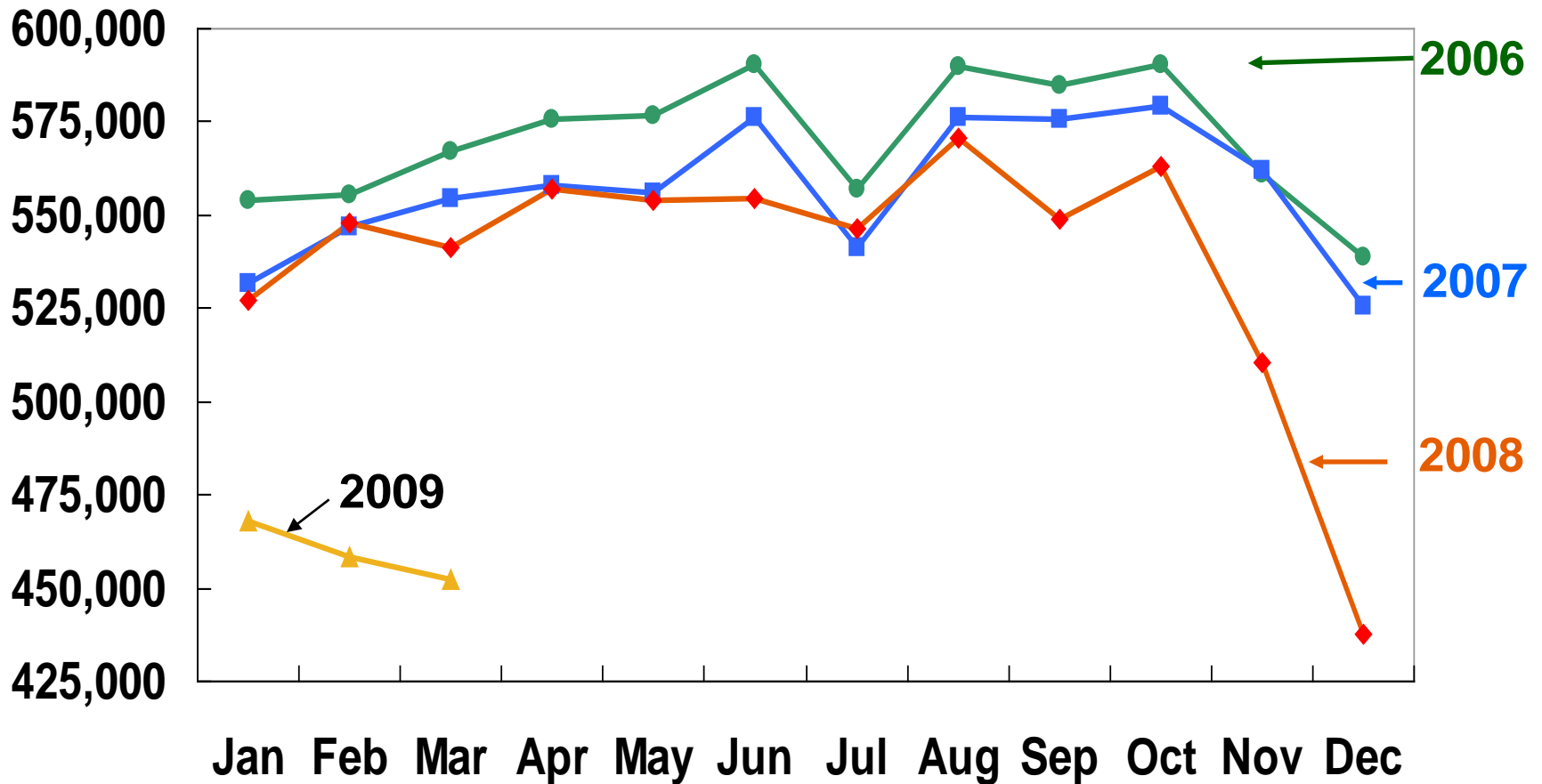
Self	Gasoline
Regular	4.45 <sup>9</sup> / <sub>10</sub>
Special	4.55 <sup>9</sup> / <sub>10</sub>
Super+	4.65 <sup>9</sup> / <sub>10</sub>

# Rail is 2-8 times more fuel efficient than trucks



# Late-2008 Plunge in U.S. Rail Traffic

## Weekly Carloads + Intermodal Units



Source: AAR

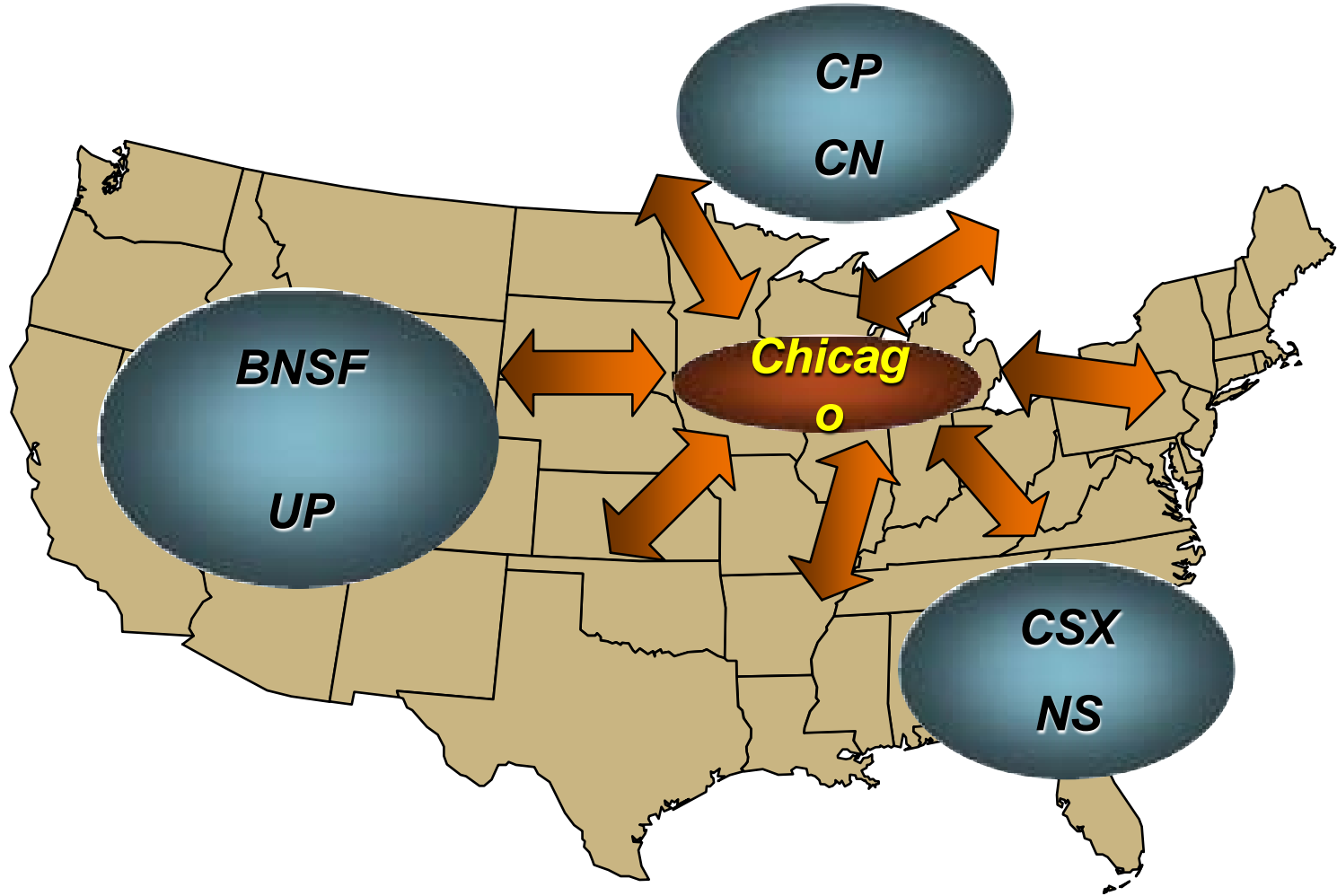
# Running BNSF During a Recession

## Guiding Principles:

- **Continue maintenance program**
- **Reduce expenses**
  - **Operations**
  - **Equipment**
  - **People**
- **Maintain financial flexibility**



# Chicago is North America's Rail Hub



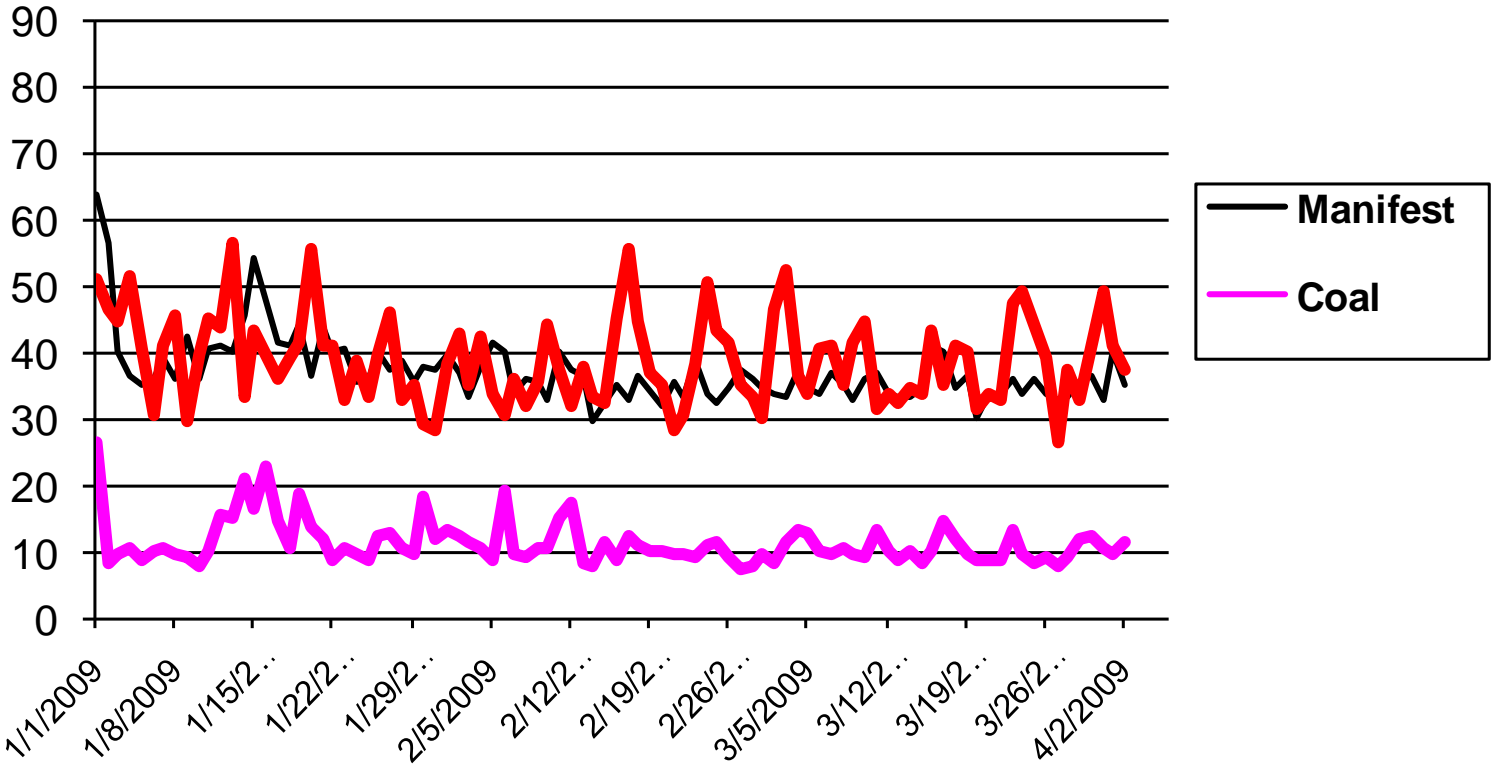
# CREATE

## Chicago's Rail Operations and Infrastructure are Complex

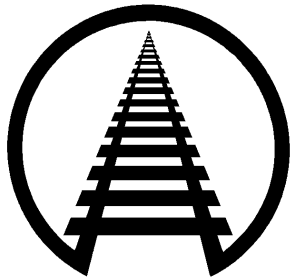
- 1,200 daily trains
- 12 commuter rail routes
- 18 intermodal hubs
- 70 yards and terminals
- 2,800 track miles (excluding yards)
- 900 highway-rail grade crossings
- 132 rail-rail grade crossings



## Cross-Town Transit Hours



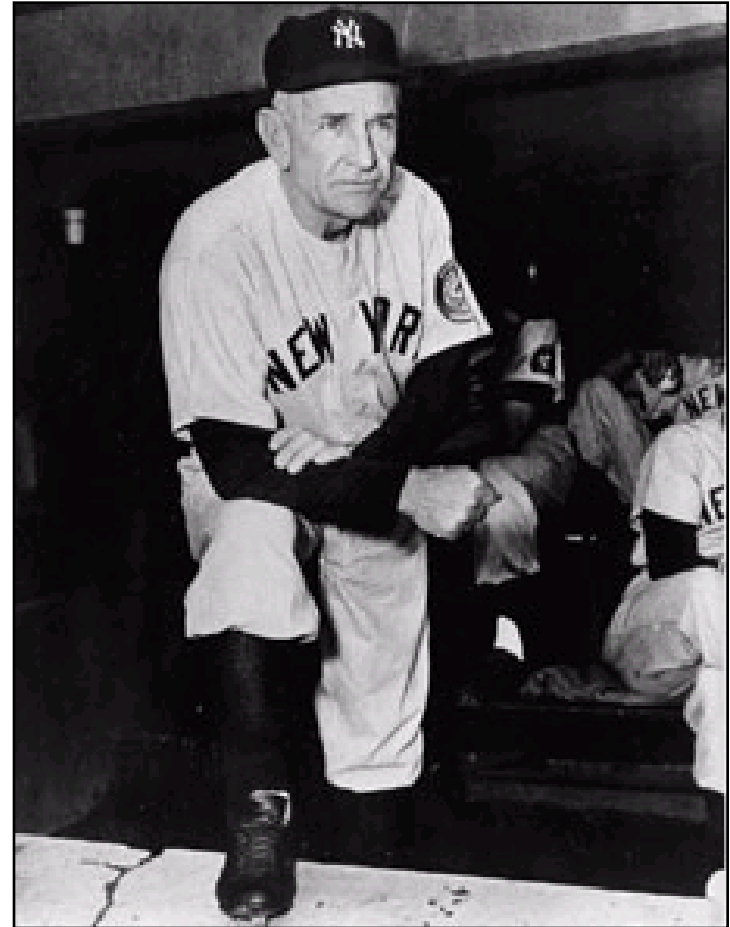
# CREATE Team



# CREATE

*“It’s easy to get  
the players.*

*Gettin’em to play together,  
that’s the hard part”*



# CREATE Program – 78 Projects

- **25 road/rail grade separations**
- **6 “flyovers”**
- **47 railroad projects**

# CREATE: 2003-2009

- **Construction Costs: \$1.5 Billion (est.)**

- **Funding:**

<u>Plan</u>		<u>Actual</u>
\$900MM	Federal	\$86MM
\$300MM	State	—
\$212MM	Railroads	\$100MM
\$30MM	City of Chicago	—
\$20MM	Metra	—

- **Philosophy:**

- **Private Capital commensurate with private benefits**
- **Public Capital commensurate with public benefits**

# CREATE: 2009-2016

- **Phase II**

- **\$1.4 Billion**

- **Complete all railroad projects, including three flyovers plus extensive rail/road grade crossing separation work**

- **Funding:**

- **Stimulus/ARRA**

- **SAFETEA-LU Reauthorization**

- **State of Illinois**

- **Railroads**



# CREATE: Challenges Ahead/Lessons Learned

- **Chicago rail operations remain problematic:**
  - **High costs**
  - **Poor service**
  - **Lower rates**
- **Public funding uncertainties (When? How much?)**
- **More passenger trains coming!**
- **Keys to success**
  - **Trust**
  - **Patience, Persistence, Perseverance**
  - **Congressional/legislative champions**

# Rail Industry Federal Policy Priorities

- **Balanced regulation (“Re-regulation”)**
- **Anti-Trust**

# Rail Industry Federal Policy Priorities

- **Investment tax credit**
- **Economic stimulus**

**CAUTION:**  
Vehicle may be Transporting  
Political Promises!

CALIFORNIA  
P00 PMPR

***BNSF***  
***RAILWAY***