Southwest Grain's written testimony for Senator Byron L. Dorgan - hearing to examine the Impact of Inverse Rail Pricing on North Dakota. Hearing on March 27, 2002.

Introduction on Southwest Grain.

This presentation addresses two major areas of concern: first, the need for a simplified rate relief process for captive shippers. Secondly, decreased handle and financial impact, on Southwest Grain, as a direct result of the BNSF initiated inverse rail pricing structure.

The inverse rail pricing scheme implemented, by the BNSF, this past year, in North Dakota, is a symptom of a larger problem - wheat rates that are unreasonable high when compared to other commodities**.** **Slide 1** shows per car shuttle wheat rate from Boyle, North Dakota to the Pacific Northwest (PNW) as compared to like shipments of corn or barley. This amounts to a difference of $1101 per car or $121,110 per 110-car shuttle. Both of these shipments operate under the same ordering, loading, and billing programs offered through the BNSF.

Slide 2 compares current wheat rates charged shippers, by revenue per ton per thousand miles, along interstate-94. A compelling argument can be made that the current wheat rate allowed the BNSF to implement this scheme at the expense of captive shippers. The yellow line indicates the average revenue collected, for all commodities hauled, by the BNSF, in 2001, of $18.05 per ton per thousand miles and the red line represents BNSF's operating expenses, including interest, at $15.77 per ton per thousand miles. It would appear that the BNSF is willing to provide full service, for less, in areas with rail competition. A study done by the Upper Great Plains Transportation Institute, in 1999, on revenue variable cost ratios, made a compelling argument for investigation into reasonableness of rates in this geographic region.

It sure would be nice if the BNSF would admit that the driver behind the inverse rail pricing is the desire to only have shuttle originators. The difference comes when comparing commodities hauled in shuttles. Spring wheat has a lack of shuttle destinations. Of the 35 destinations the BNSF currently has for shuttle trains, only a few handle spring wheat. The only spring wheat destination currently bidding, on a daily basis, is the PNW. Spring wheat shuttle facilities, at the current time, are totally reliant on export markets.

Slide 3 compares the flat price track value, of 14.0 protein spring wheat, delivered to the PNW, for the past two years. With increased procurement, from the inverse pricing scheme, comes a direct correlation to lower prices.

Why am I here today? I stand before you, on behalf of the 5000 producer owners of Southwest Grain, who are fed up with half-truths. If bragging rights count, the producer doing business at the Boyle location can claim they pay more than any shuttle location in North Dakota, per bushel, to ship wheat to the PNW. In 1999, on promises from the BNSF, we spent money to upgrade the Boyle facility to load shuttle trains, in hopes of capturing the freight savings between a 52 and 110-shuttle train. This savings was projected at $.05 a bushel. The

BNSF still claims this today, when only comparing our location to our location. Beware. Some other elevator may have this coveted distinction next.

Slides 4 & 5 show mileage and rates charged, per bushel**,** for wheat shuttles, at various locations, both to the PNW and Minneapolis.

The inverse rail pricing scheme has affected our operations as much, or more, than any elevator in North Dakota, for a couple of reasons. First, access to interstate 94 and availability for back hauling of corn, feed stuffs and fertilizer (consequently, all are items that we **previously** merchandised); secondly, the quality and quantity of spring wheat grown in our immediate area.

I want to share with you three areas, that I believe, have directly impacted Southwest Grain's bushels handled, rail cars loaded and spring wheat margins. **Slide 6** shows spring wheat production in the seven counties surrounding the shuttle Terminal at Boyle (production for 2000 and 2001). **Slide 7** shows spring wheat handle since September 1 verses a year ago - down 14%. **Slides 8 & 9** compares rail wheat cars loaded, by month, (October through February) for the past two years. Total loadings of spring wheat are down 21%. **Slide 10** represents margin retention, per bushel, compared to the same six months a year ago. Loss of margins is directly related to local procurement against the inverse rate.

As indicated, on the past three graphs, business is not as usual. Another stress is relationships, with our producers, whom have to make decisions to do business elsewhere, after years of loyalty and building friendships. If this trend continues, our cooperative is in jeopardy, as bushels move east and margins are lost.

Conclusion:
The BNSF must stop, immediately (today), the destructive practice of using an inverse rail pricing scheme in North Dakota. Secondly, (at the state and/or federal level) an affordable, timely, and simplified rate relief process that all shippers of commodities, in captive markets, can access. In simply terms - a rate relief mechanism without long litigation.

Railroads have an obligation to shippers. Current practices will force change. Favoring efficiencies, for the railroads, at the expense of North Dakota's economy. Southwest Grain's producers are only asking to be treated fairly and have a return on the capital they invested in facilities, equipment and rail upgrades.

On behalf of all patrons and management of Southwest Grain, I would like to thank you personally, Senator Dorgan and the rest of the Committee on Commerce, Science, and Transportation, for the opportunity to testify in your presence today.

Jim Bobb, Grain Division Manger for Southwest Grain