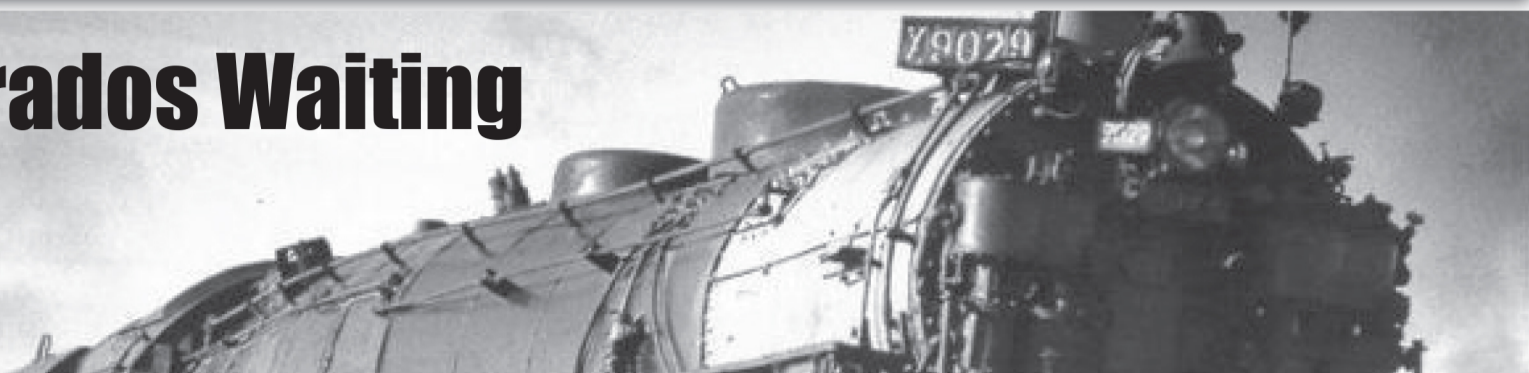




Like 'Desperados Waiting For a Train'



**By Jason Spiess
For The Drill**

FARGO, N.D. -- I am not sure if it's the "Red River" reference in the first line of the classic song "Desperados Waiting for a Train" or the lyrics about the "driller of oil," but I could not get that song out of my head while sitting in the BNSF Railway meeting with North Dakota's ag producers.

Recently, BNSF Executive Chairman Matt Rose visited North Dakota to discuss the company's investment into the state and its infrastructure, as well as internal additions. Rose's \$5 billion presentation was certainly overshadowed by immediate distribution concerns in stockpiling grain in ag and combustible cars in energy.

The immediate issue with the rail has themes surrounding the dueling attitudes towards it being speedy and efficient to allow free trade to move on a schedule, versus centralizing a community's distribution and mobility of goods to the market. This is where we currently are. There are too many products that need to use the rail system. Right now.

"It's a world-class problem," Rose said. "But it is still very much a problem to have."

One of the most important elements to building a stable foundation in an economy is distribution. Distribution is so critical, I have often heard publishers at newspaper conferences comment offhandedly that they are really in the distribution business. And all my years of history classes and western civilization, even sociology classes told the indirect story of America's backbone of free trade -- the rail. Some might even call it the central nervous system. You can have as much energy in the world, but with no way to get it to the grid or market, it pretty much will get stored or flared.

Rose's \$5 billion presentation certainly didn't satisfy the customer's immediate crop demands nor the psychological welfare of people living by the rail. It did, however, paint the picture of what my son will be reading about in school one day.

"That's the largest investment and record of anytime ever for any railroad in the United States and the free world," Rose said. "We've never seen growth in a state like we are seeing today. We've seen the TransContinental Mainline, the coal route the Powder River Basin coal route being developed in this country, but we've never seen growth quite like we are experiencing. We are committed to spending the capital to hiring the people to handle all the business growth."

One person who understands the importance and prestige of getting things from Point A to Point B is Curtis Shuck, director of economic development and facilities

at the Port of Vancouver USA. He has a unique view into distribution since the Port of Vancouver USA is a global hub of ocean-bound and river shipping lanes, interstate highways and national rail lines. The Port is a public entity, governed by three officials elected by the port district they serve.

Recent investments by communities and the rail industry are signs that make Shuck believe the West Coast has an equally important role in the Bakken.

"What's happening is there is a shift in the supply chain the way goods and services are moving," Shuck said. "With the expansion and boom that's going on in Asia right now, there's been a huge focus and shift to the railroad with grain, for instance."

Shuck continued with his example of grain that would originate in the Mississippi River Basin. Then it would be shipped to the Pacific Coast Corridor by rail, which is a newer trend. Then it would go to the world market. He said the increased rail use has shifted over the past eight years in both agriculture and energy.

North Dakota is very familiar with the Port of Vancouver USA, since its main staple is agriculture products. The Port of Vancouver USA accounts for approximately 16 percent of the total U.S. wheat shipments, according to Shuck.

"We've been moving North Dakota grain for over 75 years through our facility," Shuck said. "Our grain elevator just completed a \$100 million expansion. We are looking forward to even more North Dakota grain in the future."

Over the past five years, energy has captured quite the market share in the shipping business and Shuck has seen it. This crossover of agriculture and energy has created more of a synergy on some levels, rather than competition, according to Shuck.

"I think what's happening, at least my take on it, is the improvements of supply chains," Shuck said. "I think where most of that synergy comes is in using the same supply chains and connections."

Shuck continued saying most of the supply chain is complete and was pioneered by the agriculture industry. He continued saying the next level of rail evolution is occurring and the overall economy will benefit.

"Rail is the most efficient way of transporting commodities and goods hands down, no doubt about it," Shuck said.

Shuck is excited about future opportunities with Asia and North Dakota, so much so the Washington-based organization has opened a field office in Williston, N.D.

"We've got that staffed now and are going to see a lot more activity with us now in the mid-continent region," Shuck said. "Not only expanding our ag footprint, but also our energy side."

When asked about their relationship with the railroad industry, Shuck said it might

be the most important relationship they have.

"The Port of Vancouver's relationship with the rail, specifically BNSF Railway, is a partnership of epic proportions," Shuck said. "We have engaged in a \$275 million expansion project for our internal rail terminal network that we wouldn't have even considered if we didn't have a strong partnership with a mainline carrier."

Shuck said they are expanding their terminal capability while working with the railroad, eight other states and four Canadian provinces to develop a corridor coalition to increase supply chain operations.

"We are moving from a construction and operation relationship to a business development relationship now," Shuck said. "Obviously with the shift of shipping crude by rail, a lot of fun things are happening in the energy industry right now."

Shuck is confident the Port of Vancouver will continue to grow and North Dakota will play its part in their growth. Geographically, more shale plays are happening in the Port of Vancouver's favor, which is helping the Bakken bottom lines.

With commitments in global distribution and emerging energy and ag markets, the rail's investment appears even more critical than ever. Overall, the rail industry has increased significantly with BNSF leading the way.

"In 2013 all rail units grew by 800,000," Rose said. "Our railroad alone accounted for half of that. That is really significant."

The increased business has been broad based, Rose said. Domestic intermodal is their largest business, followed by increased ag and petroleum growths.

"Over the past five-and-a-half years, our business inbound and out of your state has grown by 144 percent," Rose said.

Then Rose continued with an even more impressive number.

"North Dakota has accounted for 24 percent of all the volume growth on BNSF," Rose said. "We operate in 28 states and we have one state right here that's accounted for 24 percent. The volume growth has been phenomenal."

As far as the entire rail industry, North Dakota accounted for 20 percent. From 2009 to 2014, inbound traffic has increased 53 percent. Outbound traffic has increase 194 percent.

Rose said the shuttle network has also grown significantly too. The state is up to 39 with one more scheduled to be completed this year.

"That certainly has been huge investments on behalf of our customers of having the faith, quite frankly, in our railroad to handle the volume has allowed us to locate these shuttle locations," Rose said.

About \$1 billion is allocated for expansion, which will allow BNSF for expand

their railroad business to handle more volume, according to Rose. Additionally, about 46 percent of its annual revenue goes back into the railroad.

"That's the four million ties we have to put in each year, the 350 miles of track we have to replace," Rose said.

BNSF is forecasted to add 500 more locomotives with approximately 275 already integrated into the system, adding 45 per month until their scheduled goal. Once the 500 are added, BNSF's total locomotive count will be 7,400. Rose believes the sheer total investment into the locomotives is an all-time record for the industry.

Train and yard people account for 1,890 new hires, with plans to add approximately 3,000 more. In 2013, BNSF added 3,000 people and is projected to add 5,000 in 2014, according to Rose. Specifically, BNSF has hired 478 people thus far in its North Dakota offices.

"You read and hear about unemployment issues across the country, well there are no unemployment problems in North Dakota as I am sure I am speaking to the choir," Rose said. "We've had to go above and beyond to hire our employees here in North Dakota."

Rose added BNSF has also spent about \$326 million of \$900 million in expansion capacity and are about halfway through its maintenance plan. He also said there are signs and trends occurring within the state that should be noted.

"We've got 150 development projects happening in North Dakota," Rose said. "So if anyone thought you (North Dakota) were putting the wall up and there was no more business, well there are 150 new businesses coming to North Dakota on our railroad alone that we've added since 2009. And that just continues. We are adding more and more."

Specifically, BNSF is projecting a \$390 million investment into North Dakota expansion and maintenance.

"I remember, back in the day, during the former BN (Burlington Northern) days, the entire company would only spend \$750 million, and we are spending \$390 million just in this state alone," Rose said.

Rose said he visited the Minot projects and was pleased at the progress indicated there was about 22 miles of double track completed and another 23 miles scheduled to be completed next month.

Taking a step back, Rose said BNSF is confident by the end of the fourth quarter, \$550 million will be invested into 65 miles of double track and will be in service.

"We are starting to see some of this come to fruition," Rose said. "We've had quite a bit of expansion in our Minot yard, so that is coming along. We should continue to see the velocity of the railroad to improve."

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