

SHORTLINE

Connection



First Quarter 2015

Shortline Message

Opportunities allow us to get stronger

We began 2015 with renewed optimism for the economy. More jobs, rising wages and lower fuel costs are all tail winds for economic prosperity.

Fuel costs specifically are much lower in 2015 than 2014, with crude prices falling to less than \$50 per barrel from a peak of \$100 per barrel in June 2014. This new fuel environment has positive and negative implications for the rail industry.



On the positive side, lower fuel prices reduce fuel expenses for the industry. Meanwhile, consumers benefit from lower gasoline prices. With four drivers in my household,

I am certainly spending less on gasoline than I did last year.

The hope with lower gasoline prices is the ripple effect where consumers will spend this extra money on consumer goods. Our Building Products, Automotive, and Intermodal customers all benefit from improved consumer spending.

The success of the oil and gas sectors developed into one of the great growth stories for the rail industry over the past five years. BNSF and our shortlines benefited greatly as a result of increased shipments of crude oil, frac sand, pipe and cement over the past several years. Much of BNSF's frac sand franchise is located on shortlines.

Lower crude prices have caused oil and gas exploration companies to significantly reduce their exploration and drilling programs. The railroad industry is beginning to feel the effects of lower fuel prices in our oil and gas segments.

While we can't dismiss the impact oil and gas industry volatility has on our businesses, we can continue to jointly pursue new markets and customers. Shortlines are still an

important part of BNSF's business.

I have highlighted a couple areas where we can continue to strengthen our relationships and focus on growth between our companies. BNSF hosts Shortline Marketing Days at our Fort Worth headquarters. These meetings are held with BNSF's marketing teams and are designed to review market information and discuss specific customer opportunities. Please coordinate with your BNSF shortline director if you are interested in conducting one of these meetings.

Joint sales calls are another important way for us to develop opportunities with our mutual customers. We recognize the efforts you have made to build relationships with customers at the local levels.

Please share with us any thoughts you might have to grow our mutual business together.

Thank you for your continued efforts and resilience as we all respond to the challenges of the freight marketplace. We look forward to working with you in 2015.

Merrill J. Lieb

Inside

BNSF's resources are at your fingertips.

Please see page 2

Farmrail is adapting to the changing landscape of Western Oklahoma.

Please see page 3



Now is the time for shortlines to start having conversations with BNSF about PTC

Please see page 5

Upcoming events

34th NARMO
Operations Seminar
May 4-7, 2015

Hyatt Regency Indianapolis
Indianapolis, IN

2015 Railroad Day on Capitol Hill
June 4, 2015
Washington, D.C.

2015 ASLRRRA
Central Pacific Meeting
Sept. 12-15, 2015
Scottsdale, AZ

2015 BNSF Shortline Conference
Oct. 21-23, 2015
Worthington Renaissance Hotel
Fort Worth, Texas

Shortline Resources



Customer Support Group

What They Do: BNSF's Customer Support team is available to assist you with any needs related to shipments on BNSF. The customer support team is only a phone call or e-mail away (24-hours daily, including weekends). Customers and shortlines need to establish a PIN on our website, www.bnsf.com, to facilitate better service. The Customer Support team's goal is to resolve concerns within the first contact.



Who: Any team member
How: 888-428-BNSF (2673) or www.bnsf.com/customers/support-services/customer-assistance

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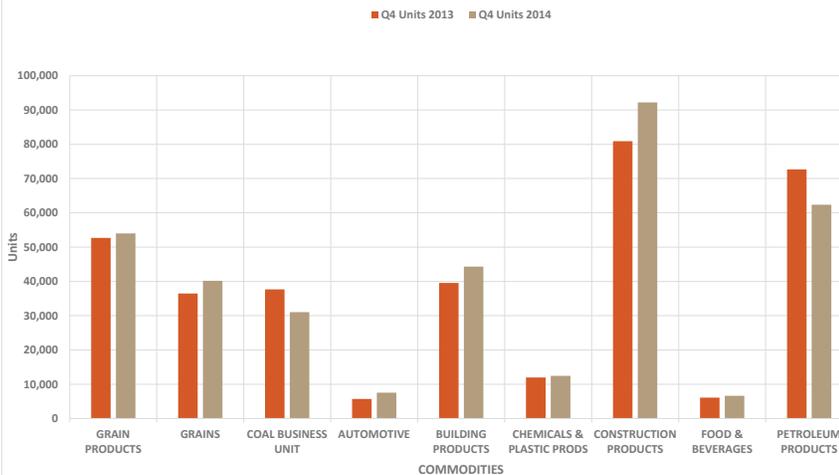
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Inside the Numbers



Shortline Volume 2014/2013



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Shortline Mission Statement:

Our vision is to realize the potential of BNSF's shortline connections by leveraging the capabilities of both BNSF and its shortline connections to drive profitable growth.



Get mobile with BNSF

When you're on the go, *Shortline Connection* is at your fingertips via your mobile device. Read us on your smart phone or tablet at www.bnsf.com/slc.

It's as easy as 1-2-3. Simply Select, Click and Enjoy!



Responding to Change



Agricultural commodities were once the primary loads on Farmrail and Grainbelt railroads, but today the Oklahoma-based shortlines are hauling more from the Anadarko Basin.



Farmrail manages the ups, downs

The plight of Oklahoma-based Farmrail System, Inc. is a lesson in responding to change. The employee-owned holding company for two Class III common-carrier railroads, Farmrail and Grainbelt railroads, successfully manages its portfolio through the ups and downs of the market, seizing opportunities from the fields of western Oklahoma.

Farmrail and Grainbelt railroads transitioned from primarily handling agricultural commodities to handling materials now shipped daily to and from the oil-rich Anadarko Basin.

In recent years, these railroads have benefitted from a resurgence in oilfield activity, including increased loads of frac sand and crude deliveries, while drought conditions devastated what used to be the railroads' mainstay of wheat. Even as crude traffic is weaker over recent months, the company appears ready and nimble to keep trains rolling with whatever the region provides.

"There has been a tremendous

shuffling of the deck here in terms of traffic mix," Chief Executive Officer George Betke said. "At the end of 2013, crude shipments declined, so we're back to a mix of sand, other oil field materials and miscellaneous carload business."

Moving processed gypsum, feed grains, crushed stone, fertilizers and agricultural machinery have provided diversification in the last decade from grains and oil-related products. But now sand is currently king on the network, which includes the 178 miles operated by Grainbelt and 169 miles of leased and owned track operated by Farmrail. Since 2008, frac sand loads have grown significantly. During the time period before the rise of crude-



by-rail, sand represented nearly 40 percent of the Farmrail portfolio.

Nine years ago, more than 45 percent of carloads carried the red winter wheat indigenous to western Oklahoma. However, with the onset of drought, those grain shipments declined due to the severe harvest conditions.

Farmrail President and General Manager Judy Petr observed how the last meaningful harvest occurred in 2008. At this benchmark, Petr said 44 percent of the railroad's traffic came from wheat fields. Last year, system wheat accounted for only 5 percent because a late March freeze stunted crop growth.

The downturn in wheat essentially

Several years ago, the majority of carloads on Farmrail and Grainbelt railroads were winter wheat. But the onset of drought has affected crops and forced the railroads to diversify.

put Erick, Oklahoma, out of business, she said. No trains have traveled the 14-mile stretch from Sayre, Oklahoma, since June 2002, when 72 carloads moved.

Now, Farmrail is betting on new business development at Erick based on grains of sand – not wheat. The company is working closely with a sand supplier to construct a new facility.

To provide needed service, Farmrail is applying funds received from a TIGER V grant to rehabilitate the line. Crews are replacing 19,500 ties between Sayre and Erick, and installing two switches and 1,500 feet of track. The project calls for the addition of new ballast and the resurfacing of 17 grade crossings.

In all, Farmrail is spending \$2.5 million to upgrade the line by summer 2015.

“The sand company is one of four new customers locating on our system, two of which are oilfield-related,” Betke said. “They are looking beyond the current downturn in oil prices, realizing that huge reserves remain in the Anadarko Basin even after a century of production. The other two customers would provide further traffic diversification.”

In the meantime, Farmrail is utilizing trackage for car storage, helping the company bridge cyclical downturns in rail traffic. Five years ago, the railroad stored container platforms along 20 miles of its network. Today, empty intermodal cars are being stored around Altus, where Farmrail interchanges with BNSF.

“Car storage disappeared as the economy recovered, and now it’s back again,” Petry said. “Like many shortlines, Farmrail and Grainbelt are dependent on carload traffic. Chasing and capturing opportunities are the name of the game.”

And whatever comes along, Farmrail is ready. In addition to investments in infrastructure supported by TIGER grants in the last five years, the company maintains a steady maintenance regimen. Farmrail typically spends at least 30 percent of its operating revenue on track and equipment maintenance. In recent years, the investment is timely because of the growth in crude oil and petroleum-related traffic.

“We’ve had a dramatic improvement



in the number of slow orders out there and in general track condition,” transportation superintendent Jeff Blanchard observed. “From an infrastructure standpoint, the physical plant that totals 347 miles is in better condition than it has been in quite a while.”

Petry said face-to-face meetings with BNSF in recent months helped the railroad plan better for business development.

Last summer, BNSF’s marketing team made the trip to Farmrail’s Clinton, Oklahoma, headquarters to

meet with team members and sand customers. Later in the year, Farmrail representatives visited BNSF in Fort Worth to discuss strategy and additional opportunities.

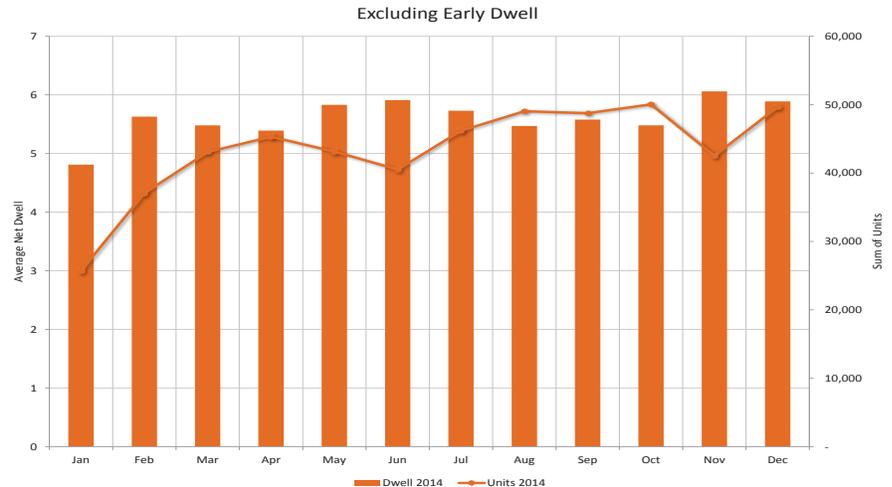
Petry believes both sides came away with a better understanding of how best to work together.

“I think we obtained a better understanding of what each party is looking for,” she said. “It never hurts to communicate more. And I feel that’s been very helpful, and it will continue to be helpful. Closer communication with BNSF has been very worthwhile.”

Inside the Numbers



BNSF Dwell Trend thru 12/31/14

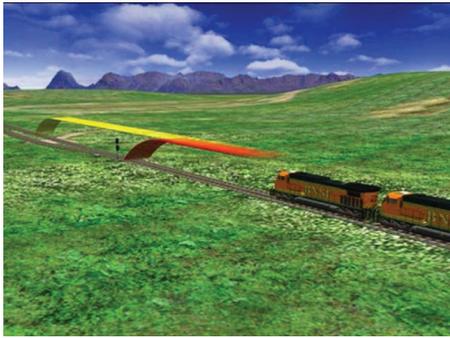


PTC

It's time to start having discussions with BNSF

Many of the Class I railroads continue to work toward the mandate to implement Positive Train Control (PTC) prior to the existing statutory deadline of Dec. 31, 2015.

A bi-partisan group of U.S. senators recently introduced the Railroad Safety and Positive Train Control Extension Act, which would – if approved – extend the federally mandated deadline for implementation of PTC by five years to Dec. 31, 2020. The federally mandated PTC system is designed to prevent train-to-train collisions, over-speed derailments, incursions into established work zone limits and the movement of a train through a switch left in the wrong position.



BNSF has been working diligently to install PTC at various locations across its system. Once testing of these systems is completed, BNSF plans to implement PTC at these locations. In many states and subdivisions along BNSF's network, PTC is already in place.

PTC may affect some shortlines

PTC applies to Class I railroads and commuter lines but some shortlines that operate on BNSF trackage will also be required to operate with PTC. Shortlines that may be affected by PTC should be talking with BNSF and vendors now in order to be ready for this critical change.

Ed Tilley, BNSF's Director NOC Signal Operations,

offered an overview of what shortlines need to know about PTC compliance: "Because each shortline's involvement with PTC may vary, there is not a one-size-fits-all checklist." Shortlines should get in touch with their BNSF shortline director to see what may need to be done. Tilley stated, "If you aren't having these conversations, now is the time to start."

How much time is spent on BNSF trackage and at interchanges will determine whether or not a shortline needs to invest in PTC equipment and become compliant.

"We need to know what the shortline's traffic volume is, how many trains a day, how many days of the week so that we may estimate the impact on our operation," said Tilley.

BNSF will help shortlines get compliant, but much of the work will have to be done by the individual carriers. Tilley recommends working with a third-party vendor like Herzog, Rockwell Collins-ARINC and Xoroail.

Locomotives will need upgrades

For starters, shortlines will need to upgrade locomotives and establish back office communications to comply with interoperability specifications for communication with BNSF and other carriers throughout the PTC network. Tilley said that getting "PTC ready" could take a shortline up to a year.

Shortlines will have to upgrade motive power to be used in PTC-monitored areas. That involves installing an onboard computer and display, a GPS, radio and locomotive computer interfaces. The technology must include complex braking algorithms based upon train speed, train consist and geographic conditions to enforce train authorities.

The equipment will have to be supported by a back office to authenticate train crews, including setting up a log-in I.D. and pin number. The crew member must be verified as an employee of the shortline who has been trained for PTC.

"Those functions need to be performed by the shortline," Tilley said. "Shortlines also need to be able to provide software updates (as well as other configuration changes)."

Shortlines may self-train employees for PTC certification or work with the NARS training center in Overland Park, Kansas. PTC certification may also be provided by third-party vendors.

"We will help shortlines with the requirements and help them decide what to do, give them direction," Tilley said.

