



(GUEST OPINION)

Matt Rose

# BUILDING RAIL TO THE COAL FIELDS

POWDER RIVER BASIN EXPANSION

BY MATT ROSE

PHOTOGRAPHS BY LEE M. BUCHSBAUM

➤ **These are boom times for Powder River Basin coal. In 2006 Burlington Northern Santa Fe Railway moved a record 287 million tons of coal, nearly 11 percent more than in 2005, and more than 90 percent of that coal was loaded in the PRB. Forecasts from the Energy Information Administration indicate that demand for PRB coal will keep right on growing.**

To handle growth in demand for PRB coal, we are adding track capacity at historic levels. From 1998 through this year, BNSF will have invested more than \$2.8 billion in increasing coal capacity. BNSF will continue to make significant investments to increase coal capacity, as long as we can continue to improve our return on invested capital for our coal business and exceed our cost of capital.

Volume growth and pricing that more accurately reflects the value of rail service have enabled BNSF to increase our capital commitments as our returns have improved. There is a direct relationship between the higher rate of return on invested capital and our ability to reinvest in our business. That investment allows us not only to maintain the quality of our infrastructure but also to expand capacity, which is improving velocity and efficiency.



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Although BNSF and other railroads have been investing in capacity, there is demand from our customers for even greater investment. There are several options for increasing investment in rail capacity. We believe the preferable option is to supplement the current model with a stimulus such as the investment tax credit proposed in legislation currently being considered in Congress.

The right stimulus would not be enough to cause bad investments, but would ensure that good, market-based investments would be made sooner than they would be if we just retain the current model. Without such a stimulus, we should be prepared for capacity constraints as demand for rail capacity exceeds supply.

It has been estimated that stimulus would increase expansion capital in the industry from around \$2 billion a year to \$4 billion, and that scale of increase would have a tremendous impact on expansion. It really is simple. The railroad model works like all other industries. The healthier the industry, the more money it will put into investment. ☺

**Matt Rose is chairman, president and chief executive officer of the Burlington Northern Santa Fe Corp.**



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