
This Progress Report describes various changes that have occurred in BNSF’s operations on its trackage rights lines and purchased lines (the "UP/SP lines") since the filing of BNSF’s last Progress Report on October 2, 2000.
(BNSF-PR-17). The Report will also address the marketing and business development efforts undertaken by BNSF since the October 2 Progress Report was filed.

As documented by this Report, BNSF continued its aggressive efforts over the past three months to compete with UP for available business with customers BNSF can access on the UP/SP lines. As described in Section I, while there were no significant revisions to BNSF’s transportation service plan on the UP/SP lines during the fourth quarter, BNSF continues to adjust its operating and service plans as necessary to meet market conditions and customer needs.

Section II provides an update on BNSF’s capital investments on the UP/SP lines. Section III discusses BNSF’s marketing and industrial development initiatives during the fourth quarter of 2000 as they relate to the UP/SP lines. BNSF launched several marketing and growth initiatives during the quarter, including new intermodal train service in the I-5 Corridor, a transnational carload marketing agreement in that corridor, and expanded service to and from Mexico.

In Section IV, BNSF provides updates concerning recent developments and issues affecting the implementation of the Board’s conditions on the UP/SP merger, including the initiation of service to the American Soda, L.L.P. (“American Soda”) plant at Parachute, CO, UP’s announced termination of Transwood, Inc.’s (“Transwood”) track and property lease at Ogden, UT, and Gulf Coast service problems.

I. **CHANGES IN BNSF’S OPERATIONS SINCE ITS LAST PROGRESS REPORT**
This section describes changes in BNSF’s service over the UP/SP lines which have occurred during the period from October 2, 2000, through December 31, 2000.

A. Gulf Corridor

BNSF previously reported that it agreed on September 21, 2000, to UP’s request to shift some BNSF trackage rights trains operating between Temple and Corpus Christi, TX, from the regular route over UP’s Angleton and Brownsville subdivisions between Algoa and Corpus Christi to a temporary alternate route over UP’s Flatonia and Port Lavaca subdivisions between Caldwell and Placedo via Flatonia. These temporary reroutes were implemented to address congestion problems on UP’s lines in south Texas and to expedite the completion of maintenance work between Algoa and Bloomington on UP’s Houston-Brownsville line. The reroutes ended on October 15 after traffic flows generally improved with the removal of slow orders on UP’s Brownsville line. BNSF rerouted a total of 33 trains via Flatonia between September 27 and October 15, including 18 Alliance-Laredo merchandise trains, 13 Laredo-Alliance merchandise trains, one loaded unit grain train, and one empty unit grain train.

BNSF also reported in its previous filing that it had begun rerouting loaded and empty unit rock trains that normally operate over its trackage rights between Kerr and Sealy, TX via Smithville in order to avoid congestion on UP’s Waco Subdivision between Waco and Smithville and on UP’s Smithville Subdivision between Smithville and Sealy. The rerouted trains operated over a longer but
less congested route using BNSF’s trackage rights between Kerr and Temple, TX, then over BNSF’s own line between Temple and Houston. These reroutes, which affected shipments of aggregates received from the Georgetown Railroad at Kerr destined to BNSF customers at Alvin, Houston, and Karen (north of Houston), continued through the end of November. A total of 21 unit rock trains were rerouted during the fourth quarter, in addition to those that were rerouted during the third quarter as previously reported.

BNSF continued during the fourth quarter to provide unit coal train service over its trackage rights to the Fayette Power Project at Halstead, TX, jointly owned by the Lower Colorado River Authority (LCRA) and the City of Austin, TX. BNSF operated 43 loaded unit coal trains over the trackage rights to the Fayette Power Project during the fourth quarter. BNSF also continued to provide unit coal train service to Entergy Gulf States’ Roy S. Nelson Generating Station at Sulphur, near Mossville, LA. BNSF operated 28 loaded unit coal trains to the Nelson plant during the quarter.

B. Central Corridor

BNSF reported in its previous filing that it agreed on September 21, 2000, to UP’s request to temporarily modify the trackage rights between Denver, CO and San Jose, CA to limit operations to no more than two eastbound trackage rights trains – one manifest train and one empty unit steel train – per day between Roseville, CA and Weso, NV. This temporary modification was made
to the trackage rights agreement in order to expedite the completion of UP’s scheduled maintenance work on the joint trackage between Keddie and Virgilia, CA. The temporary modification was extended to January 1, 2001, in order to allow additional time for the maintenance work to be completed. This arrangement did not impair BNSF’s ability to continue providing sufficient train capacity in this corridor to accommodate existing and projected business volumes.

BNSF continues to operate daily, high-priority merchandise train service over the Central Corridor between Denver, CO and Stockton, CA. The origination of the eastbound Riverbank, CA to Denver, CO merchandise train (train symbol M-RRBDEN) was revised effective October 4, 2000, in order to improve the on-time performance of business handled on this train. The eastbound train now originates at Stockton, CA with train symbol H-STODEN (Stockton, CA to Denver, CO merchandise). The westbound train operating between Denver, CO and Stockton, CA (train symbol H-DENSTO) originates daily at Denver. Generally, every other westbound H-DENSTO train terminates at Provo, UT.

On November 26, 2000, BNSF began providing regular scheduled service to American Soda’s new soda ash and sodium bicarbonate production facilities at Parachute, CO. (As previously reported, BNSF and UP agreed that BNSF would have access to American Soda at Parachute under the “new facilities” condition imposed by the Board in its decision approving the UP/SP merger.)
BNSF is currently operating a new local train service between Grand Junction, CO and Parachute to provide three day per week service to American Soda. New hopper cars manufactured for American Soda at Connell, TX are currently being forwarded to Grand Junction by BNSF’s H-DENSTO merchandise train, where they are placed on the new Parachute local for delivery to the American Soda plant. Loaded cars originating at Parachute with soda ash and sodium bicarbonate are moved to Grand Junction by the Parachute local, where they are picked up by BNSF’s H-STODEN train for forwarding to Denver and their ultimate destinations. BNSF operated 13 such locals between Grand Junction and Parachute between November 26 and December 31, 2000.

C. I-5 Corridor

During the fourth quarter, BNSF continued to revise its existing merchandise train service plans in the I-5 Corridor while simultaneously introducing new services between Seattle, WA and Los Angeles, CA.

On October 17, 2000, BNSF replaced its daily Everett, WA to Barstow, CA merchandise train with a new, high-priority merchandise train originating at New Westminster yard in Vancouver, BC destined for Barstow, CA (train symbol H-VBCBAR). This train handles blocks of traffic for Stockton and Barstow and is designed to provide expedited, consistent service for merchandise business received from Canadian interchanges at Vancouver, BC destined to Nevada and Southern California. BNSF currently operates three daily southbound merchandise trains, H-VBCBAR (Vancouver, BC to Barstow, CA), H-PASBAR
(Pasco, WA to Barstow, CA), and M-PASBAR (Pasco, WA to Barstow, CA), and two daily northbound merchandise trains, H-BARPAS (Barstow, CA to Pasco, WA) and M-RRBVAW (Riverbank, CA to Vancouver, WA), over the I-5 Corridor. The northbound merchandise train H-BARVAW (Barstow, CA to Vancouver, WA) was discontinued in December due to seasonal traffic fluctuations.

On November 5, 2000, BNSF and Matson Intermodal Systems, Inc. began operating a new intermodal train service in the I-5 Corridor. The “Pacific Coast Express” offers regular, twice weekly, fixed-day service for international steamship and commercial customers moving freight in the I-5 Corridor between Seattle and Los Angeles. The southbound train (train symbol S-SEALAC) originates at BNSF’s Seattle International Gateway (“SIG”) intermodal facility on Tuesday and Saturday. Its northbound counterpart (train symbol S-LACSEA) originates in Los Angeles on Tuesday and Sunday. BNSF and Matson operated a total of 11 southbound and 15 northbound intermodal trains between Seattle and Los Angeles between November 5 and the end of the fourth quarter.

BNSF reported in its previous filing that BNSF and UP had agreed to temporarily detour certain northbound and southbound I-5 Corridor merchandise trains via UP’s line between Portland and Chemult, OR via Eugene. These detours were necessitated by a major track maintenance and rehabilitation project at Paxton Hill on BNSF’s line between Wishram and Chemult, OR. The maintenance work at Paxton Hill was completed ahead of schedule, and the detours terminated on October 15. A total of 82 northbound and 62 southbound
trains were rerouted via the UP line between Portland and Chemult during the Paxton Hill project.

On October 13, 2000, BNSF and UP commenced a second maintenance-related detour involving BNSF’s use of UP’s line between Klamath Falls, OR and Roseville, CA. These detours were necessitated by a tie replacement project on BNSF’s line between Bieber and Keddie, CA. (BNSF purchased the Bieber-Keddie line from UP as part of the September 1995 BNSF Settlement Agreement.) The detours ended on November 1 following completion of the tie replacement project. A total of 22 northbound and 24 southbound trains were rerouted over the UP during this project.

II. BNSF INVESTMENTS IN TRACKAGE RIGHTS AND PURCHASED LINES

The following is a summary of investments and improvements that BNSF has made during the fourth quarter on the UP/SP lines.

- **Baytown Branch – Construct Interchange Tracks.** During the fourth quarter, BNSF selected contractors for and commenced construction of interchange tracks in the four switching zones south of the Dayton storage-in-transit facility on the Baytown Branch. These tracks will be located at Baytown, Eldon Junction, Cedar Bayou (Cove Road), and Mont Belvieu. The Baytown track was scheduled for completion by December 31, 2000. Completion of the Eldon Junction track has been revised to January 31, 2001, due to material delivery and weather-related problems. The Mont Belvieu interchange track is currently planned for completion by
February 28, 2001, and the Cedar Bayou (Cove Road) interchange track is planned for completion by March 31, 2001. The Cedar Bayou project has incurred delays due to right-of-way acquisition problems. The added capacity provided by these four tracks, designed to support BNSF’s access to customers on the former SP Baytown and Cedar Bayou Branches, will benefit all customers of both BNSF and UP on these lines by reducing BNSF usage of UP infrastructure used to support UP’s local switching operations.

- **Lafayette Subdivision Rehabilitation and Maintenance Program.** BNSF continued the ongoing maintenance and rehabilitation projects on the jointly-owned former SP Lafayette Subdivision between Avondale and Iowa Junction, LA. Specifically, during the fourth quarter, BNSF maintenance forces installed 66,000 wood ties on the Lafayette Subdivision between Live Oak and Ramos, LA. All trackage associated with this project was surfaced to permit increased train speeds. Several public highway crossings are also being upgraded as part of this project.

- **Fernley, NV Operating Track.** During the fourth quarter, BNSF’s contractor MK Centennial completed track construction between the clearance points of the new siding. UP installed the west switch for the new siding during November and early-December. The east switch is currently scheduled for installation by UP in late-December or early-
January 2001. This will support BNSF business growth to new customer facilities and transloads in the Fernley and Sparks, NV areas.

III. BNSF’S MARKETING PLANS AND EFFORTS

A. Recent Activities

During the fourth quarter, BNSF continued its intensified marketing activities with respect to a number of points on the UP/SP lines and introduced several new marketing and growth initiatives designed to promote system-wide intramodal and intermodal competition.

As mentioned in Section I, BNSF and Matson Intermodal Systems, Inc. began operating a new intermodal train service called the Pacific Coast Express. The new train service, which began on November 5, offers regular, twice weekly, fixed-day service for international steamship and commercial customers moving freight along the I-5 Corridor between Los Angeles, CA and Seattle, WA. The Pacific Coast Express was introduced after Matson Navigation Company restructured its water-based Pacific Coast service from a weekly port-to-port service to the new Pacific Coast Express rail container service. The added frequency of the new service is designed to allow customers additional flexibility in scheduling their freight shipments. Matson Intermodal System, a subsidiary of Matson Navigation Company, manages the service.

On November 15, BNSF and Canadian National Railway Company (“CN”) announced a Carload Marketing Agreement under which each railroad will be able to market and price new carload business on selected routes involving both
railroads’ lines. The first route covered by the new Carload Marketing Agreement is the I-5 Corridor, including BNSF-served points in Arizona, California, Idaho, New Mexico, Nevada, Oregon, Utah, and Washington, and between El Paso and Sierra Blanca, Texas, and CN-served points in Alberta, British Columbia, and Saskatchewan. The agreement provides BNSF the opportunity to respond more expeditiously to interline customer requirements by “through” pricing traffic originating on BNSF to points served by CN. Similarly, CN gains the opportunity to “through” price traffic originating on CN to points served by BNSF. The pricing authority contained in the agreement includes shortline railroads where pricing and marketing are performed by either BNSF or CN as connecting carriers (i.e., so-called “handling carrier” shortlines). Coupled with service improvements discussed in Section I.C, this agreement provides rail shippers between western Canada and the western United States with an improved product offering for carload traffic in the I-5 Corridor.

On November 17, in conjunction with its rail partners Transportacion Ferroviaria Mexicana (“TFM”) and The Texas Mexican Railway Company (“TM”), BNSF announced expanded intermodal service offerings for Mexican traffic moving to and from TFM intermodal terminals at Monterrey, Pantaco, and Queretaro. Service offerings and pricing for BNSF’s intermodal customers to and from Mexico also includes fees for “door-to-ramp” or “ramp-to-door” drayage (“door service”) between the Mexico intermodal facilities and the actual origin or destination of the shipment, the “in-bond transit authority” fee for the rail
movement between the border and Mexico origins/destinations, and the North American Container System (“NACS”) equipment charges while the shipment is in Mexico.

For the fourth consecutive year, BNSF cooperated this past fall with public and private interests in the State of Louisiana, as well as the Louisiana & Delta Railroad (“LDRR”), a "2-to-1" shortline railroad, in the operation of intermodal sugar cane trains. LDRR operated a daily "sugar cane train" over BNSF's route on expedited schedules to ensure product quality. The trains originated in the Lake Charles, LA area, destined to receivers on the LDRR which are accessed via the Iowa Junction-Avondale, LA route. This innovative public-private partnership is designed to deliver both economic and safety benefits to southern Louisiana, by increasing sugar cane production and refining and by removing increasingly large volumes of sugar cane (estimated at over 70,000 trucks per harvest season) from the region’s highway system.

B. Traffic Volumes

BNSF traffic volumes over the lines to which BNSF received access as a result of the UP/SP merger have continued to grow. See the chart attached hereto as Attachment 1. The charts attached hereto as Attachments 2 to 11 reflect the volumes of traffic for each of the major traffic lanes to which BNSF received access. Attachment 12 shows the breakdown by general commodity groups of this traffic.
Recent successes enjoyed by BNSF in marketing its services over the UP/SP lines include:

- BNSF moved the first shipment of soda ash from American Soda at Parachute, CO, on the Central Corridor trackage rights on November 30. The initial shipment, consisting of three hopper cars each carrying 115 tons of soda ash, was destined to Pevely, MO and Dunkirk, IN for use in the manufacturing of various glass products.

- BNSF secured a movement of structural piling from Maverick Tube, Hickman, AR destined to New Iberia, LA on the Houston-New Orleans “50/50 Line”. This traffic, which formerly moved via barge, commenced during November and is anticipated to continue during the first quarter of 2001.

- BNSF bid for and captured a movement of coke breeze originating at Geneva, UT, on the Central Corridor, destined to Monterrey, Mexico.

- BNSF secured a two-month agreement to transport trainloads of metallurgical coal originating in British Columbia destined to Monclova, Mexico via Eagle Pass.

C. Customer Identification And Access Pursuant To Merger Conditions

BNSF has continued its efforts to identify all UP/SP customer facilities to which it received access as a result of the UP/SP merger. These facilities
include access to “2-to-1” customers and transload facilities on its trackage rights lines and facilities which can be served by the seventeen “2-to-1” shortlines to which it received access. Current listings of all such known facilities are attached as Attachment 13.

BNSF access to two additional customer facilities was confirmed during the fourth quarter:

- Red River Army Depot (“Red River Arsenal”); and
- Lone Star Army Ammunition Plant (“Lone Star Depot”).

Both facilities are located at the omnibus “2-to-1” point of Defense, TX and are physically served by the Texas Northeastern Railroad (“TNER”). BNSF is working with UP to revise the haulage service by which BNSF traffic originating or terminating at Defense is moved from or to the TNER interchange at Texarkana, TX. An earlier haulage agreement between BNSF and UP contemplated that such traffic would be interchanged by BNSF and UP at Shreveport, LA and that UP would provide haulage services between Shreveport and Texarkana. Due to service problems previously experienced with the Shreveport interchange, BNSF has requested that UP agree to change the interchange point to Longview, TX and provide haulage services between Longview and Texarkana. UP is currently reviewing BNSF’s request.

With respect to the development of new facilities along BNSF’s trackage rights lines, BNSF is working with a number of customers and has achieved several additional successes during the fourth quarter. On December 8, UP
acknowledged that BNSF will have access to a new transload facility being established by Port Container Industries, Inc. (“PCI”) at 327 Riverside Drive in San Antonio, TX. At the conclusion of the fourth quarter, more than 30 other industrial development projects involving new customer facilities at “2-to-1” points and on trackage rights lines were in various stages of research, discussion, planning, or implementation. BNSF and its customers currently have four new facility access requests (all made on December 5, 2000) pending with UP:

International Paper Company, which is leasing warehouse space in a newly-constructed distribution center at Ontario, CA;

Staples, Inc., which is leasing warehouse space in a newly-constructed distribution center at Ontario, CA;

Green Waste Recovery, a new-to-rail customer at San Jose, CA; and

Unimast, Inc., located in the Cedar Crossing Industrial Park at Baytown, TX.

BNSF anticipates receiving a response from UP on these pending new facility requests in early-January 2001.

IV. ISSUES AFFECTING BNSF’S IMPLEMENTATION OF TRACKAGE RIGHTS

The following summarizes issues that have affected BNSF’s implementation of the merger conditions during the fourth quarter and updates the status or disposition of previously reported issues.
A. BNSF-UP Joint Service Committee

The BNSF-UP Joint Service Committee (“JSC”) met on October 24, 2000, in Omaha, NE to discuss operating and service issues. Specific items discussed at the October 24 meeting included: review of BNSF and UP train performance on trackage rights lines including Temple-San Antonio, Algoa-T&NO Junction, and Tacoma-Vancouver, and on BNSF’s Cajon Subdivision in southern California; directional operations on UP’s Midlothian Subdivision between Fort Worth and Waxahachie; and the 2000 and 2001 joint capital programs. The next JSC meeting is scheduled for January 30, 2001, in Fort Worth, TX.

B. Ameren UE – Labadie, MO

BNSF advanced plans during the fourth quarter to construct a new track connection between the BNSF and UP main lines at or near Pacific, MO that will facilitate BNSF’s long-term access to Ameren UE’s Labadie plant. BNSF continues to utilize temporary haulage rights over the UP between St. Louis (Grand Avenue) and Labadie to implement the Board’s ruling providing for competitive access to Ameren UE at Labadie. During the fourth quarter, BNSF operated 18 loaded unit coal trains to the Labadie plant.

C. Track Capacity Issues at Grand Junction/Durham, CO

As described in Sections I.B and III.B, BNSF commenced local train service during the fourth quarter of 2000 to American Soda’s new soda ash and bicarbonate production facilities at Parachute, CO, located approximately 46 miles east of Grand Junction. In addition to the new soda ash and bicarbonate
business, BNSF provides service to three other customers in western Colorado – Conoco, Total Petroleum, and Steel, Inc – all of which are located on the Railhead Industrial Spur at Durham, three miles west of Grand Junction.

BNSF currently leases two tracks from UP at Grand Junction – Depot Track #1 and Depot Track #2 – to support its operations at Grand Junction and Durham. BNSF also uses, but does not lease, a portion of the Railhead Industrial Spur to stage its outbound empty cars for pickup by BNSF’s eastbound merchandise trains. BNSF has used the Railhead Industrial Spur to stage cars for pickup since at least 1998 and has made previous requests to lease the Railhead Industrial Spur from UP for that purpose. UP recently informed BNSF that it must discontinue its use of the Railhead Industrial Spur to stage cars for pickup by BNSF’s merchandise trains. BNSF and UP continued discussions during the fourth quarter of 2000 to develop a mutually acceptable solution to this issue, and several options are currently being reviewed. BNSF has continued to use the Railhead Industrial Spur to stage cars for pickup by its merchandise trains while these discussions are ongoing.

The addition of the American Soda business has placed additional demands on BNSF’s limited track capacity in western Colorado. BNSF and UP are in ongoing discussions concerning BNSF’s near-term and long-term plans with respect to operating plans and facility requirements to support the American Soda business. For the near-term, BNSF and UP have agreed in principle to a six-month lease of two yard tracks at Glenwood, CO to provide additional
capacity to support BNSF’s operations. For the longer-term, BNSF plans to construct a yard adjacent to the UP main line at Parachute, and BNSF acquired property for that purpose during the fourth quarter of 2000. BNSF presented its plans to UP during a meeting in Grand Junction on December 14 and has provided engineering plans for the proposed yard to UP for review and comment.

D. Transwood, Inc. Transload – Ogden, UT

Transwood operates a transload at Ogden, UT, a “2-to-1” point, on property that Transwood leases from UP. Transwood commenced operations at this Ogden facility in 1989 in conjunction with SP and has conducted transloading operations at this site continuously since that time. The principal commodity handled by Transwood at Ogden is soda ash from southwestern Wyoming, which originates at points directly and exclusively served by UP, and for which SP was providing rail customers with a competitive alternative to UP prior to the UP/SP merger. BNSF has provided rail service to Transwood’s Ogden transload, in competition with UP’s direct service to the traffic origins as SP did prior to the UP/SP merger, since the commencement of BNSF’s Central Corridor trackage rights operations.

As previously reported to the Board, UP originally notified Transwood that its lease of the Ogden transload site would be terminated effective November 1, 2000. UP notified BNSF on September 22 that it had given notice to Transwood of its intent to terminate the track and real estate leases effective November 1 in
order to make more productive use of the property, but that it had not finalized
the November 1 effective date.

On October 23, Transwood received a letter from UP, in reply to a letter
sent by Transwood to UP on September 6, stating that the Ogden lease would
be cancelled on November 1. Due to concerns over service interruptions and
plant shutdowns arising from the threat of the lease cancellation, customers of
Transwood and BNSF began implementing contingency plans to divert
equipment then enroute to the Ogden transload and to reposition the equipment
for loading at other BNSF-served soda ash transloads.

In a letter to UP on October 26, BNSF registered its objections to UP’s
decision to terminate the lease on November 1 without allowing Transwood
sufficient time to identify, select, and prepare a suitable alternative site and to
physically relocate its facilities and operations to that site. BNSF requested that
UP rescind its decision to terminate Transwood’s lease on November 1 and hold
in abeyance any further action with respect to the Transwood lease until passage
of a reasonable and sufficient amount of time for Transwood to select, prepare,
relocate to, and commence operations at an alternate site. In a response dated
October 30, UP assured BNSF that Transwood’s operations would not be
terminated at the Ogden location on November 1, and that Transwood could
remain on UP property and trackage for the time being. BNSF also requested in
its October 26, 2000 letter to UP that in the future, should UP decide to close an
existing transload at a “2-to-1” point that is doing business with BNSF, UP agree
to (1) provide 180 days advance written notice of its intent to BNSF and its customers, (2) request BNSF’s concurrence on a mutually acceptable lease termination date, and (3) offer the transload operator an alternate site (or sites) at least as suitable in terms of cost and location as the site to be closed. UP has not responded to this portion of BNSF’s October 26, 2000 letter.

At the end of the fourth quarter, Transwood remains in operation on trackage and property leased from UP at Ogden. BNSF and Transwood are continuing to evaluate alternatives that will allow Transwood to vacate the UP lease and return the property to UP for other uses while still maintaining a competitive market alternative for rail customers needing its services.

E. Broken Arrow Environmental – Aragonite, UT

During the fourth quarter, Broken Arrow Environmental (“BAE”) and UP continued negotiations on an industry track agreement for UP to construct and install two main line turnouts to BAE’s proposed municipal solid waste transload facility at Aragonite, UT. As previously reported, BNSF and UP have agreed that upon completion of BAE’s facility, BNSF will provide service with either a turnaround local originating at Provo or a Provo-Elko through local.

F. Dunphy, NV Turnouts

BNSF previously reported to the Board concerning the installation by UP of two mainline turnouts to serve Newmont Gold Company’s new petroleum transload and distribution facility at Dunphy, NV. The first of the two turnouts (the west turnout) was installed and placed into service by UP during the second
quarter of 2000. BNSF anticipated that UP would complete the installation of the second turnout to this facility (the east turnout) by late July 2000. However, the date for installation of this turnout has been postponed by UP again and was expected to occur by the end of December 2000, weather permitting.

G. Capital Metropolitan Transportation Authority ("CMTA") – McNeil, TX

BNSF previously reported to the Board that CMTA and UP have agreed to construct a new interchange track in the northeast corner of the crossing of the CMTA and UP lines at McNeil, TX. During the fourth quarter of 2000, UP completed the turnout installation and construction of track to the clearance point of the UP main line at McNeil. This track will connect to a new interchange track that is currently being constructed by CMTA. Upon completion of the interchange track and new connection, which is expected to occur during the first quarter of 2001, BNSF and Austin Area Terminal Railroad (CMTA’s interim operator of the former Longhorn Railway, “AUAR”) anticipate relocating the present BNSF-AUAR interchange at Elgin, TX to McNeil, as was contemplated in the Board’s Decision No. 10 in the Houston/Gulf Coast oversight proceeding.

H. Texas Service Issues

In its previous filing, BNSF described recent severe service disruptions occurring to BNSF trains operating on the trackage rights between Houston and Brownsville, TX and between Temple and Eagle Pass, TX, that were due in part to slow orders permitting safe operations while UP performed track repairs necessitated by the record summer heat and drought conditions in central and
south Texas during mid-2000. As mentioned elsewhere in this report, service on these routes gradually returned to “normal” levels during October with easing of the weather conditions and concerted efforts by UP track maintenance forces to alleviate the slow orders. However, BNSF remains concerned about the excessive number of “DOL’s” (i.e., crews that are unable to complete their trips within the federally-mandated Hours of Service Law) that it experiences on these lines. BNSF and UP continue to discuss solutions to recurring congestion problems in the Gulf Coast region that will improve train performance and reduce operating costs on the trackage rights.

I. Settlement Agreement Issues

As previously reported to the Board, in reviewing the BNSF Settlement Agreement and other conditions on the UP/SP merger, as well as subsequent Board decisions interpreting and clarifying those conditions, BNSF believes that a number of issues between BNSF and UP need to be defined and clarified, and specific processes put in place to eliminate differences of opinion which lead to delays in responding to the needs of their rail customers. On December 22, 2000, BNSF prepared and transmitted to UP a restated and amended Settlement Agreement to incorporate changes required by the conditions imposed by the Board on the UP/SP merger and by the Board’s subsequent amendments, orders and decisions interpreting and clarifying those conditions. BNSF has proposed to UP that a meeting be convened in early 2001 to review
the changes, achieve closure on any open issues, and finalize the restated and amended agreement.

V. CONCLUSION

Throughout the fourth quarter, BNSF has continued its efforts to provide reliable, dependable and consistent service over its trackage rights lines. BNSF has introduced several initiatives designed to improve its service offerings on the UP/SP lines and has established several innovative marketing programs to improve BNSF’s ability to provide fully competitive service. There are nonetheless certain issues which must be resolved with UP in order for BNSF to continue to be fully responsive to customer needs and to fully implement the Board’s merger conditions on an ongoing basis and in the future. BNSF will continue to seek to resolve these issues and any other disputes as expeditiously as possible to ensure full implementation of the conditions imposed by the Board, and accepted by UP in order to secure approval of its merger with SP, to ensure the continuation of intended competition for rail customers afforded access to BNSF as a result of the UP/SP merger settlement agreements and Board decisions.

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