



Company News for MRL Employees

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MESSAGE



From the President

With 2012 in the history books, many new business opportunities on the horizon, and a new and important contract signed with BNSF; I thought it would be

appropriate to share with you my thoughts on the future of our Company. First of all, let me be direct and to the point—I believe our future is bright and our best days are ahead of us!

2012 was a solid year on the safety front. Through your hard work and commitment, we have posted frequency rates of less than 1.0 for the past three consecutive years—we are the envy of the industry for our safety performance, and we can get even better.

2012 was also a solid year financially, and more importantly, the record volumes positioned us well for future growth. Our profit sharing has grown again this past year, marking the 10th year of continued growth. The 16.8% to be paid in March surpassed our previous best of 15.6% last year. During 2012, BNSF rerouted significant volumes of traffic over us as they improved their highline route; and we expect to see the rerouted traffic continue through most of this year. Beyond the increased bridge traffic, our on-line business also grew in 2012. Although we have not rebounded to our pre-recession levels, we continue to see improvements including new customers like Willis Enterprises. Willis Enterprises began shipping wood chips in March 2012 and is now at near full production and expected to be a customer for years to come (*see New Business article at right*). With the expected BNSF bridge traffic and new on-line business opportunities, we expect 2013 to see the high volumes experienced this past year.

History was also made last year with our BNSF business relationship. As you most likely know, our base agreement allows for certain contract minimum levels of traffic. We routinely move significantly more traffic than the base levels and, over the past ten years, have been moving that traffic using short-term agreements. This “supplemental traffic” consists of major segments of our business; namely grain, coal, forest products, and other commodities. You can imagine the difficulty in making long-term decisions like hiring and track capacity improvements when contracts are set to expire in a few short years. As a result, we have worked to bring more certainty and stability to the relationship with BNSF, and last August, we signed a 25 year agreement for the “supplemental traffic” that was previously handled using short-term agreements. We believe that this long-term agreement will help provide sound forecasts on which to base hiring and other resource decisions. I am convinced that it will provide new business opportunities, certainty for our business and undoubtedly help us plan for the future.

I firmly believe that it's full steam ahead for MRL. If we live our vision to be the best in safety, customer satisfaction and ingenuity; we will soar beyond what was once thought impossible. Lastly, and most importantly, thank you for your Commitment to Safety—we can only attain greatness when we do it safely.

Thank you,

Tom Walsh

The Best Way

Mark Smith, Superintendent

Change in the rail industry is evolving daily. It has always been critical to remain competitive and profitable in the long term. Today is not any different from the past, and in fact, change is happening so rapidly it can be hard to keep up with unless you are on your game!

Through hard work and commitment, MRL has been on top of the game with the intent to stay there! Last year, BNSF invited us to attend a workshop in Billings that focused on network performance through a standardization of processes. They referred to it as *The Best Way*.

So what is *The Best Way*? Simply put, it is a process focused on changing culture to improve performance. It calls for developing, testing and implementing initiatives aimed at standardizing processes at terminals, yards, dispatching centers, and shops; so the facilities operate more efficiently, reduce waste and increase operational flexibility by improving velocity. These improvements impact and increase capacity. The goal is to get all departments working toward consistent, sustainable operational performance.

In *The Best Way* workshop, it was learned that BNSF was planning to send a team to MRL in January 2013. The team would focus on Laurel and then advance across the system to the other terminals. Now—after some coordination between both companies—we are in the process of being fully-immersed in *The Best Way* process and practices. The 12-14 member team arrived on site in mid-January and will be in Laurel for nine weeks.

PRESIDENTIAL SAFETY AWARD

Missoula Car Repair Facility
Livingston Locomotive Facility
Work Equipment
Helena Locomotive Facility
Signal West

Week one consisted strictly of diagnostics. The team dispersed on the property and worked with individuals from all crafts. They then got back together for a report-out on opportunities for improvement. The second week involved a series of workshops that focused on the initiatives. At the end of January, the group met to experience *The Best Way* University which involved classroom discussions and hands on computer instructions for the program. The remainder of the time the team spends on the property will be strictly one-on-one with all people involved. The one-on-one time will last approximately four weeks. When Laurel is wrapped up, they move to Missoula and converge on the terminal and dispatching office.

There are six terminal-based Transportation initiatives. They are OPCODE (Operating Condition), Roles and Responsibilities, Train Plan, Power Management, Arrival/Departure Plan, and Meetings/Metrics.

The Best Way implementation will benefit us in all aspects of the new 25 year contract between MRL and BNSF—not to mention the fact that it is completely in line with our President's vision of being the *Best of the Best*!

New Business

Jim Lewis, Director Sales & Marketing

Willis Enterprises, located at the former Stimson Lumber Mill in Bonner, recently completed a multi-million dollar project; including land purchase, wood chipper and track construction. With their newly installed chipper and car loading plant, this new customer has the ability to load 16 wood chip cars per shift. The chips will supply wood fiber to Boise Inc's Wallula, Washington paper mill. This was a great team effort by all departments including: Operating for developing an efficient operating plan to service Bonner; Mechanical for upgrading our existing chip car fleet; Engineering for building the new track; and Sales & Marketing for bringing this new business to the railroad. Willis has the potential to ship over 3,000 carloads annually. Job well done to everyone!



Above: Willis Enterprises in Bonner

Keeping Track

On the Move

Grant Anderson, Casey Roen, John Songstad • Were Track Laborers, Now Switchmen

Bret Baldassin • Was Locomotive Engineer, Now Trainmaster/Road Foreman

Pete Kobilansky • Was Track Laborer, Now Assistant Roadmaster

Kathy Mahoney • Was Clerk, Now Revenue Accounting Technician

Jake Roth • Was Machinist, Now Mechanical Foreman

Yancy Terland • Was Switchman, Now Machinist Apprentice

Kayleen Woodruff • Was Engineering, Now Manager Terminal & Train Performance

Look Who's New

Administrative Assistant Engineering
Tiffany Crawford

Carman Apprentices

Mitchell Bochy, Joe Couture, Tim Denz, Jess Graber, Leonard Klein, Mike Lewis, Bryce Lowell

Clerks

Lydia Hess, Amber Petro

Dispatcher

Annette Baker

Locomotive Engineers

Jacob Braun, Byron Denny, Robert Diehl, Brett Engert, Patrick Epling, Karmen Fields, Lucas Grabow, Samuel Green, Bryan Hager, Andrew Hagerman, Mark Heffron, Michael Higgins, Mark Jarrell, Adam Johnston, David Lloyd, Corey Lulow, William McKenzie, James Mohr, Marcus Mosley, Sean Mullen, Christopher Rea, Joseph Santucci, Gregg Sauers, Matthew Sefcovic, Tim Rodriguez, Robert Sheldon, Jerry Smith, David Steel, Derek Wasson

Machinist Apprentices

Webster Counts, Mario Flores, Rlynn Halvorson, Cary Haman, Tyler Verlanic

Switchmen

Kyle Adams, Matthew Blohm, Dean Brashear, Jason Decker, William Gilbert, Joshua Harris, Jacob Havener, Doug Heisserer, Buck Hill, Cory Holt, Michael Jacobson, Henry Jennings, Ted Johnson, Landon Kjensmo, Adam Knepper, William Linden, Lyle Loftus, Blaine Lovell, Lane Mann, James Nelson, Jacob Popp, Todd Pyrzewski, Pedro Russell, Nicholas Siegel, Austin Smith, Dan Smith, Ben Southworth, Craig Westerberg, James Whitmore, Ryan Williams

Retirements

Edith Dibble, *Operating Laurel*
Harold Hays, *Operating West End*
Steve Kallevig, *Mechanical Livingston*
Kim Kautzman, *Training Rules & Safety*
Terry Krum, *Mechanical Laurel*
Kim Redman, *Engineering Missoula*
Bruce Richardson, *Mechanical Laurel*
Randy Smith, *Operating Missoula*

Capital Improvements 2013

Randy Gustin, Chief Engineer

MRL has an aggressive capital improvement program planned for the 2013 work season with a total projected capital budget of over \$45 million. Curve rail is considered a non-discretionary item, and there are nearly 10 miles slated for replacement this year. There are also over 11 miles of 115# tangent rail slated for replacement with 136# rail. In conjunction with these rail replacements, there will be new main line turnouts installed at East and West Reed Point, Helena West, Gold Creek, and Nine Mile. The new #11 turnouts for Nine Mile and Gold Creek are particularly noteworthy; having a state-of-the-art, low impact, low maintenance lift frog design.

The capital tie replacement program has seen an increase from 110,000 ties to 120,000 ties; a significant increase in response to current and anticipated future traffic levels. Bridge projects will include the completion of the large rehabilitation project for Bridge 94.1 at Clark Fork, Idaho and a concrete deck replacement for Bridge 78 near Heron; as well as several projects to replace deck ties and encase piers. There will be a project to address some concrete spalling in the Bozeman tunnel as well as tie and ballast renewals in tunnels 8 and 10 east of Paradise. Major signal projects in 2013 will be between Quebec

and Greycliff on the 2nd Subdivision and between Drummond and Bearmouth on the 3rd. There are numerous other capital projects to renew or improve hardware and software across the MRL system.

Laurel Yard will see numerous improvements this year. Track changes in Laurel will include additional storage tracks north of the Old One Spot and extensions, coupled with turnout and signal changes, to tracks 14 and 15. There will also be numerous projects to improve buildings throughout the Laurel complex. Finally, there will be five new turnouts and over 3.5 track miles of 115# rail installed to improve existing tracks in Laurel.

Equipment and vehicle purchases are intended to continue to improve the efficiency of the Railroad. The big news this year is the replacement of one of MRL's locomotive cranes with a much larger machine; more suited to handling the larger, heavier components common in modern railroading. The programs for surfacing, undercutting and joint elimination (thermite welding) also compare very favorably with recent years. The work plan for 2013 is intended to continue to improve the property as we focus on our goal of being the *Best of the Best*.

Presidential Safety Award

Casey Calkins, Director Training Rules & Safety

The Montana Rail Link Presidential Safety Award is not easy to attain. As a matter of fact with the current culture at our Company, the bar is continually being raised through the effort and commitment of our employees to work safely. The selection of multiple work groups for 2012 showcases an extraordinary effort toward safety excellence across the crafts and the system, each of which went the entire year without a minor injury. Congratulations to those who rose to the challenge and proved beyond a doubt that our ultimate goal of "Double Zeros" is within our reach!

While we applaud the 2012 Presidential Safety Award recipients for their tremendous achievements, it's worth noting that the examples of safety excellence are not limited to those groups. MRL's Scorecard reflects there is a majority of groups working without reportable injuries, and many of those have been doing so for several years. When compared to similar railroads nationally, MRL's performance in safety is among the very best.

Thank you for your hard work and commitment to our Safety Culture. I look forward to seeing the great accomplishments we have achieved by the end of 2013 and beyond!

ExpressYard

Chris Cline, Manager Car Repair

In December 2012, MRL switched from Wabtec to ExpressYard for our Car Repair Billing system. Car Repair Billing includes the reporting and/or invoicing of repairs performed on railcars that cross our railroad. Since Wabtec no longer provided support for their system, ExpressYard was found to be the most compatible for our needs. It is web-based with the capability of integrating with our current Enterprise One accounting program. Forthcoming handheld devices will primarily be used for the tracking of certain inventory material to the railcar it was placed on (ie. wheel sets, couplers, etc.) per the AAR Component ID mandate.

Safety Contest

Pete Lawrenson, Chief Security & Safety

From all across our pristine territory, employees are eager to share ideas and suggestions on how to promote a strong and positive safety culture. It's exciting to have employees active and engaged in promoting our Company as the *Best of the Best* in safety. It has been a number of years since the Company has sponsored an employee safety slogan/poster contest, and it's time to do it again. During the next week or so, fliers announcing the contest will be posted in all work locations. Begin thinking of a safety slogan or a graphic promoting MRL's safety culture, and you will be ready to submit your entry. Remember that our safety goal is to be the *Best of the Best*, and with ideas and suggestions from employees, the prospect of Double Zeros for Zero Accidents and Zero Injuries is attainable. Winning entries will receive cash prizes.

Coming Soon

Scott Trent, Chief HR Officer

Joining the other Washington Company business units, MRL is preparing to launch a new web-based tool called EthicsPoint. This program is a comprehensive, confidential reporting tool designed to assist us in addressing fraud, abuse and other misconduct in the workplace—all while cultivating a positive work environment.

MRL is committed to maintaining the highest standards of ethical conduct in all of its dealings with employees, customers, suppliers, and the communities we serve. The Company embraces business practices that create long-term values and enhance our reputation for fairness, integrity, respect, safety, and trust. EthicsPoint is one more avenue to reinforce a commitment to be the *Best of the Best*. Look for the EthicsPoint link to appear on our website, www.montanarail.com in the near future.