



Updated Report to the Oregon Transportation Commission June 20, 2019

Oregon Port of Willamette, LLC (OPW) is pleased to provide the following update to the Oregon Transportation Commission (OTC). This includes a response to recently-received information from the Oregon Department of Transportation (ODOT) and the Tioga Group.

“Lest We Forget”

In funding a grant for establishing a mid-Willamette Valley intermodal facility, and in assigning the award authority for such a grant to the OTC, the Legislative Assembly discussions focused on these factors:

1. The reduction of congestion on Oregon’s roads, especially I-5, by reducing the number of trucks hauling freight containers, through a transfer of such haulage to rail.
2. The reduction of carbon emissions by transferring movement of container freight from trucks to rail.
3. The reduction of use of fossil fuels by relying on rail instead of trucks to carry containers.
4. Establishing a rail shipping system which can be more predictable and reliable, as a coordinated system, compared to shipping by individual trucks, especially to help Oregon agriculture exporters.

An obvious additional factor is for the rail shipping system to be cost-effective compared to use of trucks, but the cost-effectiveness needs to be measured in terms of the efficacy of the system, not just the dollar cost per mile to move a container. The Legislative Assembly recognized that there are environmental, social, and engineering costs to consider – and chose the establishment of an intermodal facility as part of a solution to reduce those costs.

In funding the grant, the Legislative Assembly specified that the project would be a “Mid-Willamette Valley Intermodal Facility.” The legislation required that: “No later than January 1, 2020, to receive a distribution under this section, a potential recipient of money shall prepare and

submit a plan to the Oregon Transportation Commission.” Section 71 (f)(3), Chapter 750, Oregon Laws 2017. A copy of this part of the legislation is attached and marked as Exhibit A.

On September 27, 2018, OPW delivered to OTC and ODOT a comprehensive plan and proposal for an intermodal facility to be located in Brooks, Oregon, adjacent to the Portland & Western Railroad line. The plan, composed of 540 pages, can be found at our website: www.portofwillamette.com.

The one competing proposal is for a facility in Millersburg. This is supported by the Linn Economic Development Group.

“What’s It All About?”

These are four factors to keep in mind:

1. Use of rail to move freight (and people) reduces road congestion.
2. Rail freight significantly reduces carbon emissions compared to truck freight.
3. Rail freight is much more fossil-fuel efficient than truck freight.
4. An efficient, working rail freight system can provide more predictability in scheduling. Other than breakdowns or accidents, rail scheduling is subject to control by the players involved.

Yet there is also a Big Picture to keep in mind, as this project advances.

We have applied the vision concept so that we are not just looking at export and import shipping through the Ports of Seattle and Tacoma. We will be seeking to assist the Port of Coos Bay in its development as a container shipping port, using our Portland and Western shortline connection with the Coos Bay Rail Line to establish Brooks as an inland port facility for Coos Bay.

We are also looking at eventual rail service to the interior of the United States and rail service South to California.

The best way to understand the competing Millersburg and Brooks projects is to make comparison points. Here are ours:

Top 15 Comparison Points between Brooks and Millersburg

1) We have a greenfield site. Millersburg is a brownfield site with concrete pads where a paper mill operated for 75 years. What is under those pads and how long will it take to clean up the soil after the pads are removed?

2) Topography: We have a flat land site. The Millersburg site has varying heights which will require clearing and filling. The clearing part gets us back to the environmental issue of what is found when concrete pads are torn away.

3) Business Model: We are not seeking an operating subsidy. We plan to run the facility in a business-like fashion with clear lines of responsibility. Millersburg and Linn County are prepared to lose money in their operation, so Linn County has guaranteed a subsidy of \$2.5 million, as needed, over the next 10 years (\$250,000 per year).

4) Reduction of Congestion: Our Brooks facility wants to capture as much Willamette Valley container/truck traffic as possible. We do not plan to be an outpost which simply rails containers to Portland while others continue to truck into Portland or truck all the way into Seattle or Tacoma. We will aggressively seek to draw in all possible truck traffic and our ultimate plan is to make it highly desirable for everyone to use full rail service between Brooks and the Ports of Seattle and Tacoma. The Millersburg proposal contemplates only connecting by rail with Northwest Container Services (NWCS) in Portland. The Millersburg plan specifies that it will not be providing rail service to T6 in Portland; sadly, the Millersburg proposal includes a provision for a large parking lot to accommodate container/trucks awaiting a good time to drive into Portland to T6, to try to avoid congestion.

In our personal contacts with 23 shippers, we identified a volume of 42,430 forty-foot international containers traveling north, each year, to the Ports of Seattle and Tacoma. These represent 84,860 TEUs. As we will also back-haul 42,430 full or empty containers by rail, this represents 84,860 less truck trips through Portland each year - almost 10 every hour. This is a consequential reduction of congestion. Remember, also, that this only represents 23 export shippers that we have contacted.

5) Volume of Shipping and Competitiveness. We have attached a compendium of the volume of export containers which will be shipped out of the Brooks facility to the North each year. This is Exhibit B. If we were treated as a single export shipper, this volume alone would qualify the Brooks facility as the 11th largest export shipper in the United States, based on 2018 figures.

6) Carbon Reduction. As noted, the Millersburg plan only seeks to capture current truck traffic between the Willamette Valley and NWCS - and perhaps some additional traffic which trucks all the way to Seattle and Tacoma. But a substantial portion of the truck traffic in the Willamette Valley will not go to the Millersburg site. Earlier documentation which we submitted - and which is partially supported by Millersburg's own documentation - shows that we will reach a truck/container shipping market which is at least 40% larger than the market covered by Millersburg. As the export traffic is from the Willamette Valley to the North, Brooks has the opportunity to convince all trucks south of Brooks to go through Brooks for a rail connection to the north (and vice versa for imports). Brooks also captures importers and exporters in the northern Willamette Valley. If Millersburg is established, these shippers will still choose to truck into Portland or on to Seattle/Tacoma, rather than run south (in the opposite direction), to Millersburg. The carbon reduction available through the establishment of the Brooks site is substantially greater than the carbon reduction available through the Millersburg site (the same applies to the congestion issue).

7) Fossil Fuel Efficiency. While both sites will encourage fossil fuel efficiency through the use of rail compared to truck diesel, the market share, congestion, and carbon emissions reduction

analysis also applies here. The Brooks plan will provide significantly more relief in the reduction of fossil fuel use compared to Millersburg.

8) Consideration of the Future of the International Port of Coos Bay. The Oregon Port of Willamette proposal for Brooks, facilitated by the Oregon Shipping Group, is infused with a vision to support the development of the Port of Coos Bay as a container port. This port is an Oregon coastal deepwater port which can accommodate significant container shipping. Our plan contemplates an eventual connection with the Coos Bay Rail Line, west of Eugene (through the Portland & Western Railroad, which runs right into our facility) so as to provide the Port of Coos Bay with an inland collection and distribution facility.

9) Sensitivity to the Governor's Transportation Plan. From the filing of our original proposal to date, we have consistently supported and followed the Governor's Transportation Plan for Oregon. We do not see similar advocacy by the Millersburg project proponents.

10) Sensitivity to Diversity. Members of the Oregon Port of Willamette limited liability company are a wide variety of persons, including Oregon farmers and exporters (on their own they account for 8,000 containers of export per year). We have committed with Knife River's Railroad Division to be the General Contractor, with a specific included contract with Raimore Construction, a qualified minority contractor from Portland.

11) Rail Cars. We have a specific quote from Gunderson Rail Services, an Oregon company, to sell or lease up to 100 container rail cars, with delivery in March 2020. Details are provided in a separate document, attached as Exhibit C. Millersburg has shown no such agreement.

12) Where the Property Purchase Money Goes: Our Brooks project proposes to purchase property from nine Oregon families or businesses, where the purchase money will stay in Oregon. The Millersburg project will pay \$10 million of grant funds to International Paper Company, headquartered in Memphis, Tennessee.

13) Sensitivity to Commuter Rail Service. Our Brooks facility incorporates a railroad system design which will not interfere with future possible commuter rail service between Salem/Keizer and the Portland area. The Portland & Western line which runs from our proposed Brooks facility runs north to Wilsonville where the same line branches to Beaverton. A commuter rail service already runs on this line from Wilsonville to Beaverton. Commuter rail advocates have praised our support for the development of a vision of additional commuter rail service in the Willamette Valley, including along the Portland & Western Rail Line.

14) Rail Service Connections with Class I Railroads. Our Brooks facility can connect, via PNWR, both to BNSF and to Union Pacific. Both service approaches have their own advantages, and we can work out creative service plans for rail service. The Millersburg site is limited to UP shuttle service to Northwest Container Services in Portland.

15) Hours of Service. The Millersburg facility will only have gates open Monday through Friday, on daily shifts running to perhaps 8 hours per day. Our OPW facility will be open 24 hours

per day, seven days a week. This flexibility will help us attract even more volume, reducing carbon emissions and reducing congestion.

Response to Step 3 Decision Considerations Matrix

We received this document from ODOT at 9:11 a.m., June 18, 2019 – two days before the OTC meeting. This provides us with limited time to respond.

Our general comment is as follows: this Matrix virtually ignores the key goals established by the Legislative Assembly in funding the grant for a Mid-Willamette Valley Intermodal Facility: reducing congestion, reducing carbon emissions, reducing fossil fuel use, and helping Oregon farmers with a better shipping system to export their product. We address these concerns throughout our plans. Here we respond to the errors and misconceptions in the ODOT analysis. We have attached, as Exhibit D, the ODOT Matrix and scoring; we have numbered the 18 ODOT-listed factors and we have numbered our 18 responses as part of Exhibit D. It appears to us that the ODOT Matrix treats this intermodal project as the equivalent of establishing a railroad siding or spur, as opposed to setting up a major transportation facility.

The Tioga Supplemental Report

This report is dated June 12, 2019 but we did not receive a copy until 4:32 p.m. on Friday, June 14, 2019 (just in time for the weekend). Nevertheless, we have worked hard to respond. We note that one key element of the Tioga analysis is the question of BNSF service to Brooks, via the Portland & Western Railroad. We have been engaged in substantial continuing discussions with BNSF and the Portland & Western Railroad, and these discussions continue. BNSF advises us that it is corporate policy to refuse to provide any letter regarding proposed service (not even a letter outlining this policy). But we can represent to you that this dialogue continues. (Kevin Mannix contacted 23 shippers to get their proposed export volumes through Brooks to present this information to BNSF. This is discussed after our comments on the Tioga Supplemental Report).

Let us be clear: We reject the Tioga Group's analysis approach, which assumes that specific shipping rates can be established today for a shipping system which will not be in operation until, at least, early Fall 2020. Ask an ocean carrier, a railroad, or a trucking company to give you a price, today, for their portion of the movement of a container of goods to or from a site in the Willamette Valley to or from a site in Asia, the Pacific, Latin America – anywhere – and you will not get a rate. As anticipated volumes are developed, you can design a system, but you cannot completely price that system 15 months in advance. What you can do is develop a business plan, based on known existing factors, which gives you a good prospect of success. We have done so. Ocean carriers are just now concluding their Spring rituals of setting shipping rates to run to Spring 2020, working with large existing shippers and railroads. The variables facing the Oregon – international container shipping market are significant: Federal log book restrictions/requirements for truckers; truck diesel prices; truck driver shortages; development of new port facilities for larger ships; new low-sulfur ship fuel requirements to go into place January 1, 2020; availability of empty containers; tariff threats; and so on.

So, our initial response to Tioga is that Tioga does not fully comprehend our vision to provide a vital transportation link which is a first-rate solution for prospective customers:

1. First-rate terminal infrastructure with automation and security.
2. Alignment with drayage providers and on-site chassis pool for flexible and nimble pick-up and delivery.
3. 24 hour / 7 day per week access.
4. Dependable railroad operations to/from the Port.
5. Willingness by the Brooks team to take on the risk of railcar equipment.
6. Willingness by the Brooks team to guarantee the railroads a fair return on dedicated service capacity.

In any event, we respond to the specifics of the Tioga Supplemental Report as follows. The baseline financial modeling assessment provided by Strategic Rail Finance anticipated that OPW plans to work up to a full-train, round-trip commitment from the railroads on a wholesale basis and then market and sell that service capacity to vessel operators and their shippers at per container retail levels. Therefore, the full risk exposure for sales and revenue is absorbed by OPW at the projected 253 loaded containers per roundtrip, 3 days per week, 52 weeks per year, and is the primary driver of calculated costs per container being below typical rail retail single-container market levels. Any commentary or comparison with retail single-container market rates fails to recognize this considerable volume commitment and assumption of risk by OPW and the anticipated wholesale arrangement with the railroads.

Without completed rail negotiations, assumptions were developed using a variety of known and estimated railroad cost components and then providing a “wholesale profit or margin guarantee” to the railroads with the operation of 3 round-trip train-starts per week. The baseline submission with a train cost of \$46,000 per round-trip assumed that railroads would meet a service requirement of 16 hours maximum in each direction thereby allowing terminal time to turn trainsets and power within a 24 hour cycle. Costs included 2-3 locomotives, 2 sets of 2-person crews in each direction, and 100 intermodal wells per train start, along with current assumptions relative to fuel, line-of-road maintenance, and other overhead. Any modifications that have been discussed since this original submission are only thought to reduce the overall cost structure by blending new train service capacity in with existing merchandise or intermodal network rail capacity – so long as the 16 hour service plan can be maintained. The OPW team prefers a dedicated round-trip run-through train service as originally modeled and is willing to compensate the railroads for that service plan.

In addition to the baseline submission, Strategic Rail Finance (SRF) provided follow-up analysis and commentary indicating that a variety of negative sensitivities to economic assumptions could generally be absorbed by the project, with acceptable returns maintained. For example, rail linehaul over-runs of up to 30% of the baseline were adequately absorbed. Drayage over-runs of 30% in Oregon were adequately absorbed. Terminal operating cost over-runs of 40% were adequately absorbed. And comparative linehaul trucking costs at a 33% discount to the baseline assumption were adequately absorbed. SRF provided the OPW team with an interactive financial model that allows for sensitivities to be evaluated individually or in combination, and the OPW team feels confident that all of the sensitivities identified by Tioga can be managed.

The OPW team and SRF have estimated over-the-road trucking costs and local drayage costs by speaking with a number of service providers in the PNW marketplace and with shippers about their actual experience. The modeled assumptions for both trucking and drayage are still representative of individual quotations or guidance, and as previously discussed, negative sensitivities to both of these areas can be absorbed within the financial boundaries. We continue to target an on-dock rail operation in Seattle/Tacoma and expect to avoid or at least substantially negate terminal-to-port drayage.

Finally, in preparation for port-to-door operations as submitted, the OPW team has identified and secured a planning commitment for railcar and chassis capacity from Gunderson which is at or better than the original model submission.

The Dramatic Shipper Response


From late April into early June 2019, Kevin Mannix personally contacted 23 shippers who ship containers from the Willamette Valley via the ports of Seattle and Tacoma to Asia and the Pacific. These companies ship a combined total of 42,430 forty-foot containers per year through Seattle and Tacoma. All advised Mannix they will use the Brooks Intermodal Facility if the cost is competitive with trucking to Seattle/Tacoma. For some, our plan to be open 24 hours a day, seven days a week, is important. Many indicated they will not travel to a Millersburg facility because it is too far South but will instead continue to truck into Portland or to Seattle and Tacoma. The products included shipped seed, metal, hay, manufactured equipment, hazelnuts, onions, and processed food.

The 42,430 forty-foot containers represent 84,860 TEU (the international standard is based on 20-foot containers). This volume is very significant: The JOC Top 100 Exporters for 2018, listing U.S. foreign trade via ocean container transport, shows that the 10th largest exporter was Louis Dreyfus Company, at 85,166 TEU. The 11th largest company was WM Recycle America, at 77,395 TEU. If our 23 identified shippers were treated as one group, the OPW shippers, at 84,860 TEU, would qualify as the 11th largest export shipper in the United States.

Taking 42,430 containers off the roads is a major success. While some of these containers (we estimate 40%) go by rail from Portland's NWCS or T6 to Seattle or Tacoma, all of them presently truck into or through Portland, on the roads. Then there is haul-back: we need imported containers (empty or full) to meet export needs. So the 42,430 one-way containers reflect 84,860 round trips: by moving these containers by rail, the OPW Brooks operations reduces truck traffic on the roads by 232 per day, or almost 24 per hour. Add to this that the present T6 and NWCS only operate Monday through Friday, for about 8 hours per day, and the reduction of truck traffic will be more like 50 per hour during high-congestion times. Now that is congestion (and carbon emission) relief!

Our review of the legislative history includes consideration of comments made by legislators during meetings and work sessions of the Joint Committee on Transportation Preservation and Modernization in 2017. Several times Senators commented that taking 30,000 trucks off the road on an annual basis would significantly reduce carbon emissions and would significantly reduce congestion. With this figure in mind, we note that the Millersburg proponents have projected, at best, an intermodal volume of 21,060 containers per year. We note that 25% of this relates to the domestic market, not international shipping. Even allowing for the best volume figure for Millersburg of 21,060 containers per year, our actual survey of 23 shippers shows that we will have a volume 42,430 containers per year – twice the volume projected by Millersburg.

Furthermore, we have set up a system which has the capacity to handle 60,000 or more containers a year, over time. So, our capacity is double the figures discussed by legislators. Our immediate identified capability is more than 12,000 containers a year beyond the figure which legislators considered a success. This is the real matrix by which our intermodal facility proposal for Brooks should be measured.

A handwritten signature in blue ink that reads "Kevin L. Mannix". The signature is fluid and cursive, with the first name "Kevin" and last name "Mannix" clearly legible.

Kevin L. Mannix
Executive Director
Oregon Port of Willamette