

## **'Cap and trade' bill a possible threat, BNSF says**

(The following story by Eric Timmons appeared on The Register-Mail website on October 1, 2009.)

GALESBURG, Ill. — BNSF officials are worried about the effect a proposed cap and trade bill could have on the coal industry, one of the biggest parts of the railroad giant's business.

Cap and trade would offer tax incentives to businesses that reduce the amount of greenhouse gases they produce. One way to do that would be to move away from using electricity produced by coal, still one of the cheapest ways of producing energy.

BNSF is Galesburg's biggest employer and is vital to the local economy. It has performed better than some of its competitors during the economic downturn because only a small portion of its business is connected to the automotive industry, which has been battered by the recession.

The company's biggest source of business is from the coal it ships to power stations around the country. Now BNSF is worried that a cap and trade bill could hurt that revenue stream. "We believe the net impact for us is a negative," BNSF assistant vice president Paul Nowicki said at a rail forum in Galesburg last week. "All I can say is we are quite vulnerable right now."

The volume of coal shipped by BNSF has remained "pretty steady" throughout the recession, Nowicki said, while the volume of other types of freight has declined.

Cap and trade is already in use in Europe as part of the effort to limit the effects of climate change. The system works by placing a cap on the total amount of emissions. The cap is lowered over time to reduce the amount of pollutants released into the atmosphere. Businesses are required to buy permits for the amount of pollutants they can emit. If they produce a lower amount than their permit allows, they can trade credits to other businesses that can't meet their limits. So, the less a business pollutes, the less it pays, creating an incentive to reduce emissions. If the system works, it could lead to a reduction in the use of coal, an energy source that is seen as a pollutant.

However, BNSF's regional manager for economic development Eric Pitcher said that coal still remains one of the cheapest ways of producing energy and there is little indication that emerging technologies will replace it in the near future. "There probably is no viable alternative to coal at this point in time, to replace coal in large electricity generation," he said.

According to Pitcher, 46 percent of the electricity in this country is produced by coal, 22 percent from natural gas, 20 percent from nuclear plants and just 12 percent from renewable energy sources, such as wind and hydro-electricity.

But if less coal is used to produce energy, other sources of power that take its place could present new business opportunities for both BNSF and Galesburg.

"The railroad could lose some market share but there are other ways of generating electricity and everything requires some transportation," said Galesburg Regional Economic Development Association President Greg Mangieri. "I would hope that what might be lost in coal could be made up elsewhere."

Wind and ethanol and other biomass energy should grow as sources of electricity and Galesburg is well-located to benefit from that growth "particularly given our agricultural production," Mangieri said.

Many environmentalists back cap and trade as a way of cutting carbon emissions, which scientists say are causing climate change. However, some business interests and conservatives say cap and trade will increase the tax burden on business and produce questionable results. President Barack Obama supports cap and trade and welcomed the passage of a cap and trade bill through the House earlier this year. A vote on a Senate bill is expected soon.

One of BNSF's biggest shareholders is Warren Buffet's investment firm Berkshire Hathaway. He owns 22 percent of the company and has recently increased his share, indicating that he believes BNSF has a bright future despite threats posed by volatile economic conditions. "He's got a big bet on the future of the rail industry in general and BNSF in particular and that makes me feel pretty good," Nowicki said.