



April 16, 2020

The Honorable Elaine L. Chao
Secretary of Transportation
U. S. Department of Transportation
1200 New Jersey Avenue, S. E.
Washington, D. C. 20590

Dear Secretary Chao:

Farmrail System, Inc., western Oklahoma's 349-mile, employee-owned regional railroad network, is an essential and willing participant in the study initiative proposed by South Western Oklahoma Development Authority ("SWODA") to assess current freight mobility and anticipated needs. Our two coordinated operating subsidiaries (one as lessee-operator of state-owned trackage) are service providers in seven of the 16 counties to which the SWODA application applies, affording interchange connections with Class I BNSF and Union Pacific as well as two Class III railroads (refer to the website Farmrail.com). Their headquarters are at Clinton, known as the "Hub City of Western Oklahoma" because of the convergence there of rail routes, Interstate 40 and US 183.

The economy of the subject region of the Great Plains is dominated by above-ground and underground natural resources - agriculture, minerals and hydrocarbon reserves - all requiring transportation of heavy bulk commodities for which the railroad is well-suited. Dating from the start of the 20th Century, its rail corridors were designed for movement of those products to terminal markets in an era preceding the advent of motor carriers. As early passenger carriers, they essentially determined the locations of nearly all towns in the territory; as current freight haulers, they offer those communities opportunities for economic diversification by attracting non-traditional industry to exurban locations offering relatively low labor costs and a strong rural work ethic.

The ongoing coronavirus experience has awakened the nation to a need to repatriate manufacturing activities outsourced to foreign countries. Though western Oklahoma may be remote in the minds of most Americans, it is logistically central, by road and rail. (Oklahoma City is at the intersection of Interstates 35 and 40 and corresponding north-south and east-west rail routes.). Can we envision regional growth from relocation of certain processing or manufacturing activities currently being performed elsewhere, domestically or offshore?

As the name suggests, 39-year-old Farmrail has a history of hauling products largely related to agriculture, predominantly wheat and other grains, feed and fertilizers. More recently, its base of traffic has benefited from development of oil-shale formations in the underlying "STACK" formation of the Anadarko Basin oil reserves. During the past five years (2016-19), its annual traffic count has ranged from 10,749 to 22,492 carloads, driven primarily by

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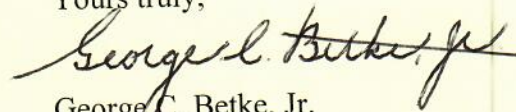
inbound frac sand, drilling fluids and associated chemicals. Unfortunately, that favorable development has been sabotaged by the oil-market collapse now making consistent news headlines.

Consequently, our marketing effort has been intensified in search of a reliable "third leg of the stool" since oilfield activity came to a standstill six months ago. Though a sharp decline in national rail traffic has afforded opportunities for storage of out-of-service freight cars, economics demand moving traffic to realize the financial and environmental efficiencies of rail transportation. We are taking advantage of the downturn to complete a \$16.5-million infrastructure project that will achieve 286,000-pound gross weight compatibility with the connecting Class I carriers for key elements of our system. By achieving lading capacity equivalence of one railcar with four trucks, we can better demonstrate the fuel efficiency, environmental benefits, and highway-abuse savings from moving additional tonnage by rail. (Nationally, rail market share is declining.)

A second focus is on furtherance of rail-truck transloading facilities such as one established at Thomas for delivery of large volumes of sand to wellhead drilling sites, now suspended. There may also be commercial opportunities to take advantage of our physical connectivity with other short lines, such as shipments of crushed stone to metropolitan destinations. A near-term opportunity to focus public attention on the subject region may be imminent, as SWODA's rail-accessible Burns Flat spaceport facility reportedly is to be activated for recertification and testing of Boeing's 737-MAX commercial aircraft fleet, certainly a newsworthy event. Undeveloped industrial sites are available at or near all on-line communities.

In summary, the coronavirus pandemic is causing Americans to rethink concentrations of population and industry that have created high-cost, high-risk urbanized areas dependent on commutation, prompting a strategy to revive the rural heartland for economic, safety, social and health reasons made possible by modern communications technology and established transportation arteries. We would be pleased to contribute to that exercise.

Yours truly,



George C. Betke, Jr.
Chairman