



Warren Buffett's Railroad Tests Natural Gas to Drive Its Locomotives

The quiet revolution going on in the energy sector as a result of fracking is being punctuated by changes unseen and unappreciated, such as [the recent announcement](#) by Warren Buffett's railroad, BNSF Railway. The largest railroad in the country, BNSF is testing the use of liquefied natural gas (LNG) to drive the company's locomotives, which currently use more diesel fuel than any other entity except the U.S. Navy.



In the announcement, BNSF chairman Matthew Rose called the change “transformational:”

The use of liquefied natural gas as an alternative fuel is a potential transformational change for our railroad and for our industry.

This pilot project is an important first step ... [in] potentially reducing fuel costs and greenhouse gas emissions.

As the price of natural gas has fallen [compared to the price of oil](#), the economic math is increasingly persuasive. At the current price for one million BTUs of natural gas, it would cost companies such as BNSF less than \$20 for the energy equivalent in a barrel of oil costing \$110. The explosion in natural gas in the United States has reduced [the “landed price” of natural gas](#) to one quarter of its price in the U.K., and one fifth of its cost elsewhere in the world. In the real world where BNSF operates, diesel fuel [costs the company](#) nearly \$4 per gallon compared to just over \$2 per gallon for large LNG users — a potential savings of 50 percent.

This is driving the BNSF test, according to Rose: “The changed market for natural gas in the United States is a critical part of our decision to explore it as a locomotive fuel.”

BNSF isn't the first energy-dependent company to do the math, either. Waste Management (WM) has already started converting its fleet of 18,000 diesel trucks to LNG and expects to have the change-over completed soon. [Said WM's CEO David Steiner](#):

This conversion makes good business sense for our company and our shareholders because of the significant maintenance and diesel fuel cost savings. It's much cleaner for the environment and our LNG trucks are much quieter.

[Also doing the math is LA Metro](#), the public transportation system that serves Los Angeles. LA Metro, with the most LNG buses in the country — some 2,200 — estimates its fleet has already driven more than one billion miles on natural gas and has cut the release of particulates by 80 percent and greenhouse gases by 300,000 pounds every day. In addition, it has cut its fuel costs by between 10 and 20 percent.

This is just the beginning, according to the international energy consultant firm [IHS](#). In its recently released study [America's New Energy Future](#), IHS says that the increases in natural-gas supplies and



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resultant lowering of energy costs have already increased household incomes, boosted international trade, and raised American competitiveness. In 2012 alone, according to IHS, the average family saved \$1,200 in lower energy bills and lower costs for all other goods and services. That figure is expected to continue to rise as energy costs decline, with savings approaching \$2,000 by 2015 and \$3,500 by the year 2025.

In addition, there are other benefits as well, including the much-reduced dependency upon foreign sources of energy. And for companies competing internationally, lower operating costs through the use of LNG are driving their competitive advantage. As domestic energy production replaces foreign energy sources, America's trade advantage will continue to improve as well.

At present, this "unconventional" energy industry supports, directly or indirectly, more than two million jobs, which number is expected to double by 2025, according to the study. As Daniel Yergin, IHS vice chairman, noted:

The unconventional oil and gas revolution is not only an energy story. It is also a very big economic story that flows throughout the U.S. economy....

In addition to significant job and economic impacts ... the growth of long-term, low-cost energy supplies is benefiting households and helping to revitalize U.S. manufacturing, creating a competitive advantage for U.S. industry and for the United States itself.

This statement by Yergin understates the coming tidal wave of benefits that will be flowing outward as the country continues its quest to become energy self-sufficient. IHS expects a third of a trillion dollars of new capital to flow into the energy sector in the next 10 years, resulting in further reductions in energy costs and household expenses.

Nothing was said in the study, however, of the impact of lower energy costs on powering the one essential necessary for a world-wide improvement in living standards: information. As the cost of information continues its already rapid decline, living standards around the world will improve greatly. [In his members-only newsletter](#), Gary North pointed out that predictions of how life will look for the next generation will turn out to be far too conservative:

How will the economy look if the cost of its major single component, information, continues to fall at a rate of 50% every twelve months? [George] Gilder [author of [Knowledge and Power](#)] believes that we are coming into an age of extreme prosperity.

If we can solve the problem of energy ... Gilder's prediction is correct.

If we can solve the energy problem, we can solve the poverty problem. Within a generation, life-threatening poverty will come to an end.

The quiet revolution going on in the energy industry, if allowed to proceed without government interference, has the potential not only of improving standards of living in the United States and around the world, but in addition of ending the scourge of poverty that has plagued mankind since creation. That's the real revolution taking place in the energy business.

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