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Before the
SURFACE TRANSPORTATION BOARD
Washington, D.C. 20423

CLASS I RAILROAD ACCOUNTING AND FINANCIAL REPORTING – TRANSPORTATION OF HAZARDOUS MATERIALS	)	**STB Ex Parte No. 681**

COMMENTS SUBMITTED OF
DIVERSIFIED CPC INTERNATIONAL, INC.

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Dated: February 4, 2009

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My name is Sandra J. Dearden. I am founder and President of HIGHROAD Consulting, Ltd. (Highroad), a transportation and logistics consulting firm located in Chicago, Illinois. Prior to founding HIGHROAD in 1996, I held a series of management positions over the course of a 26-year career in the *marketing and sales departments of Illinois Central Railroad and the Chicago &* North Western Transportation Company (North Western). During my tenure at North Western, I had profit and loss responsibility for marketing and sales of transportation for a variety of commodities, including chemicals. I chaired North Western's Hazardous Commodities Committee for seven years; departments represented on the Committee included Law, Transportation Operations, Safety, and Finance.

During my career, I have been involved in the negotiation of numerous rate and service agreements between rail carriers and purchasers of transportation service. Also, during my railroad career and as a consultant, I has participated in numerous proceedings before the Surface Transportation Board and its predecessor agency the Interstate Commerce Commission.

Under my direction, Highroad developed the only rail costing model in the industry that is not based on URCS. INSIGHT: Rail Edition© costs are based on financial data filed by the Class I railroads in their R-1 reports to the STB. It is the only model that includes costs for Canadian railroads (Canadian rail costs are based on data reported in the Statistics Canada's Rail-In-Canada report). HIGHROAD has used INSIGHT: Rail Edition© on a variety of studies for railroad and rail shipper clients, including numerous studies contracted by two Class I railroads.

I am submitting these comments on behalf of Diversified CPC International, Inc. (Diversified). Highroad has managed transportation for Diversified since 1999. Highroad personnel perform as Diversified's Transportation Department; the scope of our assignment includes monitoring the industry for proposed regulatory and legislative changes that could potentially impact on Diversified, such as the Advance Notice of Proposed Rulemaking (ANPR) initiated under this proceeding.

Diversified is a manufacturer of blowing agents and propellants for aerosols, headquartered in Channahon, IL. Diversified has six manufacturing and distribution facilities in North America; all are rail served. Its largest plant at Channahon, IL (rail station Lorenzo, IL) is served by BNSF Railway (BNSF); other plants are located at Anaheim, CA served by Union Pacific Railroad (UPRR); Petal, MS (rail station Dragon, MS) served by Norfolk Southern Railroad (NS); and Sparta, NJ which is served by the New York & Susquehanna & Western Railway (NYSW). Diversified also has a distribution facility operated by a partner company at Ajax, ON and a distribution facility in Miami, FL that serves customers in Florida, the Caribbean, and South America.

Diversified is an ISO 9000 certified company that ships and receives hazardous commodities in tank cars, including Di-methyl Ether, Petro Pentane, Diflouroethane, Dispersant Gas, Propane and finished products that move under STCC 29 121 90, Liquified Petroleum Gas.

Diversified's annual spend for rail transportation is more than $2.6 million; 52% of the finished products move via rail. They also receive two-thirds of their inbound raw materials by rail; the ratio of inbound raw materials to carloads of finished products is approximately 2:1.

Since Uniform Railroad Cost System (URCS) costs are required for proceedings before the STB, the accuracy of those costs are of significant interest to Diversified. While Diversified has no current plans to file a rate complaint or to initiate any other proceeding before the STB, the need to preserve the ability to seek relief from the STB is a valid concern of Diversified and other shippers in the chemical industry.

The ANPR states that the Board "seeks public comment on whether and how it should improve its informational tools to better identify and attribute the costs of hazardous material transportation movements." It states that "[t]here may be unique operating costs associated with the transportation of hazardous materials" and invites suggestions for revising the Uniform System of Accounts ("USOA") as well as URCS to attribute these costs to hazardous materials transportation.

If the Board deems it advisable to reopen and make changes to URCS costs on the basis that URCS may not accurately reflect the railroads' true current costs of operations, the Board should not limit its review to a single area. If the Board decides to go forward with a review of URCS, then it is important to keep in mind the logic behind URCS when it was developed.

URCS was developed by the railroads under the umbrella of the AAR to serve as a common language so costs could be discussed without violating anti-trust laws. URCS was adopted by the Interstate Commerce Commission (ICC) and introduced in 1989. When URCS was designed, the objective was to calculate system average costs, not movement specific costs. Therefore, costs incurred for handling hazardous commodities are already in URCS - it is simply a matter of how those costs are allocated.

Only one example is switching costs for flat switching cars that contain hazardous materials. Flat switching can impact on switching fuel, switching minutes (labor), etc. – costs that are already in URCS. Even if costs for flat switching were not already included, adding those costs for all hazardous moves would not be appropriate since most rail yards today do not have hump operations. Therefore, since all cars are flat switched through those yards anyway, there are no "additional" costs for flat switching. Further, if costs are added to URCS for flat switching, it would result in "double dipping" since those costs are already captured in the current URCS data. At the same time, URCS costing would become more complex as the costs could vary based on the actual route of movement so the users could determine when they should or should not add costs for flat switching.

Again, URCS was designed to calculate system average costs, not movement specific costs. Any adjustment to URCS must be approached with extreme caution.

In 1996, HIGHROAD developed INSIGHT: Rail Edition© so we would have the ability to understand railroad operating costs because we want to view the costs in the same manner railroad management personnel view their costs internally. HIGHROAD also uses URCS studies for certain projects, primarily for developing costs for STB proceedings. However, we do not use URCS for strategic planning. While we respect the reason behind the development of URCS, railroad marketing personnel do not use URCS for decision making, and it has been my experience that the railroads do not view URCS model as a useful tool for internal railroad costing when developing marketing and pricing programs.

The possibility that problems exist with the URCS cost system first came to my attention seven years ago when one of Highroad's clients requested parallel cost studies, using URCS and INSIGHT: Rail Edition©. At that time, URCS costs averaged about 40% higher than the costs calculated by our cost model. In 2007 when we performed parallel studies for a second client with URCS and INSIGHT, URCS costs were more than double the costs calculated with our model, so we conducted an investigation to (1) confirm the accuracy of the INSIGHT: Rail Edition© model and, if confirmed, to (2) determine why URCS costs are so high.

When the Interstate Commerce Commission adopted URCS, it issued an order that URCS was to be updated every five years. However, since its adoption in 1989, URCS has not undergone a systematic review and revision despite improvements in technology and efficiency of railroad operations, and changes to the railroad system in North America as a result of mergers, acquisitions, abandonments, and line sales.

The Board did conduct a limited review of URCS in 1997 related to intermodal shipments. In that proceeding the Board recognized that many key cost components were based on studies 50 years old, and some factors were based on "tradition" or guesswork versus financial analysis.[1]

When looking at the railroad industry pre-Staggers and post-Staggers, the industry has changed dramatically. The railroads are producing more with less, so the operating relationships and regression equations have changed, while URCS has not.

URCS relies on switching studies and special studies that are severely outdated, some 50 years or more. For example, in the early 50's, switching operations were paper-generated orders managed by yardmasters. Today, the railroads use state-of-the art technology and paperless transactions.

The table below includes some sample data published by the Association of American Railroads (AAR) that demonstrate the progress railroads have made when addressing the efficiency of operations, and the reason why URCS costs are problematic:

	1980[2]	2007[3]
Revenue Ton Miles Per Employee (millions)	2.1	10.6
Revenue Ton Miles Per Employee Hour	1,776	4,182
Revenue Ton Miles Per Gallon of Fuel Consumed	235	436
Net Ton Miles Per Train Hour	40,392	62,725
Revenue Ton Miles Per Carload	41,352	56,281

[1] Ex Parte No. 431 (Sub-No 2), Review of the General Purpose Costing System (decision served October 1, 1997).
[2] Railroad Facts, 1990 Edition.
[3] Railroad Facts, 2008 Edition.

URCS costs are out of date. They have not been adequately adjusted to reflect the tremendous changes in rail operations and changes in traffic mix that have developed over the past twenty years. If the Board believes it advisable to reopen and re-calcuate URCS costs on the basis that URCS may not accurately reflect actual operating costs, it would be wrong for the Board to be selective by only addressing costs associated with transportation of hazardous materials, and not to address all of the problems with URCS.

We understand other parties are asking the Board to discontinue this proceeding, and we concur with that assessment. However, if the Board believes URCS requires review, it should be a complete review that is not limited to any one issue, commodity or shipment type.

Respectfully submitted,

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Dated: February 4, 2009

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