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Statement before the Surface Transportation Board

EX PARTE 661 – Rail Fuel Surcharges

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My name is David Weisel. I am Director of Distribution for Potlatch Forest Products Corporation, a diversified forest products company with 1.5 million acres of timberland in Arkansas, Idaho, and Minnesota. Our 14 manufacturing facilities convert wood fiber into two main products, paper products (bleached kraft pulp, paperboard, and consumer tissue), and wood products (lumber, plywood and particleboard).

## POTLATCH FOREST PRODUCTS CORPORATION

### ORIGINS/SERVING RAILROADS

Cypress Bend, AR. /AKMD UP

North Little Rock, AR. /UP

Lewiston, ID./ WATCO{GRNW} UP, BNSF

The Lewiston Complex has three divisions-Wood Products Division, Idaho Pulp and Paperboard, and the Consumer Products Division.

Elwood, IL. /BNSF, UP

North Las Vegas, NV. /UP

Bemidji, MN. /BNSF, CPRS

Gwinn, MI. /CN

Post Falls, ID./BNSF

Prescott, AR. /PNW, UP

St. Maries, ID. /STMA, UP, BNSF

Warren, AR. WSR,UP

There is only one facility in the Potlatch system that is not rail served.

The total rail shipments for 2005 were 14,245 and the rail freight is over \$41MM.

With strong dependence on rail, forest/paper companies like Potlatch have a vested interest in reliable and cost-effective rail services. Potlatch, like most companies, agrees that we should compensate carriers for out-of-pocket costs, such as fuel consumption. It is for this reason that

we are not disputing the fact of getting fuel surcharges, but the process and the method that various railroads are using in assessing the fuel surcharges. The process of applying the surcharges on the freight rate, rather than seeking payment of the increase in the price paid for the consumed fuel, is an over-compensating and unreasonable practice. Potlatch would like to be convinced that their fuel surcharges do no more than reimburse the railroads for the higher fuel costs they are incurring, and they have not in fact established a separate profit center.

The following are the various fuel surcharges by the Class 1 railroads from December 2005 through May 2006:

	Dec 2005	Jan 2006	Feb 2006	Mar 2006	Apr 2006	May 2006
CP	18.0%	16.4%	16.8%	19.2%	17.6%	18.0%
CN	10.8%	9.8%	10.0%	11.5%	10.5%	10.75%
CSX	16.0%	14.4%	14.8%	17.2%	15.6%	16.0%
NS	16.0%	14.4%	14.8%	17.2%	15.6%	16.0%
UP	18.5%	13.5%	12.0%	12.5%	12.5%	13.5%
BNSF	18.5%	13.5%	12.0%	12.5%	12.5%	13.5%
BNSF-AG mileage		\$0.34	\$0.30	\$0.31	\$0.31	\$0.33

We have seen nothing from the railroads that provide anything that resembles an analysis to show us that the fuel surcharges are reasonable or explains why there should be such a wide disparity in the surcharges they are assessing, particularly since most of the railroads peg their fuel surcharges to the same index, namely the price of West Texas Intermediate Crude Oil.

We have formulas, as illustrated in Table 1, but nothing factual that says we are not over compensating.

### Summary of Surcharge Formulas for Primary Programs

	Fuel Cost Used to Calculate Surcharge	Formulas
BNSF	On-Highway Diesel	Each \$0.05 increase in the price per gallon above \$1.25 adds an additional 0.5% increment to the surcharge rate.
UP	On-Highway Diesel	A 1.5% increase is applied to rail rates after the \$1.35 per gallon threshold is met. For every subsequent \$0.05 increase in the price per gallon an additional 0.5% increment is added to the surcharge rate.

CN	West Texas Intermediate Crude Oil	A 2% increase between \$24 and \$26.99 per barrel. An additional 2% increase for each additional \$5 increase. <u>As of 4/05</u> a 1.5% increase after a \$25 per barrel threshold is met. The surcharge increases by 0.3% for each additional \$1 in WTI. <u>Effective 10/05</u> the surcharge is 0.25% for each additional \$1 per barrel.
NS	West Texas Intermediate Crude Oil	Effective 3/1/04 a 0.4% increase is initiated at price levels above \$23.00 per barrel. An additional 0.4% increment is added to the surcharge rate for each \$1 increase in the price per barrel.
CSX	West Texas Intermediate Crude Oil	A 0.4% increase is initiated at price levels above \$23 per barrel. An additional 0.4% increment is added to the surcharge rate for each \$1 increase in the price per barrel.
CP	West Texas Intermediate Crude Oil	A 2% increase when the WTI monthly price equals or exceeds \$24. When WTI hits \$27, the fuel surcharge is 4%. Each additional \$1 above \$27 increases the fuel surcharge 0.4%. <u>Effective 1/06</u> a 3.5% increase after a \$25 WTI threshold is met. Surcharge increases by 0.25% for each additional \$1 increase per barrel. An additional surcharge of 0.25% is added for every dollar above \$10 that home heating oil prices are above WTI prices.

Using outside consulting studies should be reason enough to question the validity of the process.

### Norfolk Southern's Revenue Recovery Above Fuel Cost

Fuel Cost as a Percent of Revenue revenue reduced by fuel surcharge)	(Rail	NS
Fourth Quarter 2001		6.27%
Fourth Quarter 2005		<u>11.68%</u>
	Increase	5.41%
Avg. Surcharge in Fourth Quarter 2005		16.7%
Recovery Above Fuel Cost (16.7-5.41)		11.3%
Fuel Recovery Thru Just the Surcharge (16.7/11.68)		143.0%

Source: Railroad's financial statements as detailed in Escalation Consultant's *Fuel Surcharge Study*.

*The above are the submitted railroads average percentage of fuel of total costs. Fourth Quarter 2001 to Fourth Quarter-2005 compared to the average surcharge in the Fourth Quarter. Taking the data above shows a recovery above the fuel cost during that period at 11.3%.*

The fuel surcharge for motor transport, in contrast, is typically calculated using a logical formula that results in a cents/mile figure. These surcharges are calculated by first finding the difference

between the current fuel price and a base fuel price, and dividing that result by the average miles per gallon efficiency for a truck. This results in a close approximation of the additional expense that truck transportation actually incurs due to escalating fuel cost. For example, 6 cents/gallon increase in fuel cost for a truck that averages 6 mpg results in 1 cent/mile surcharge.

The above reasons are why we are asking that a cost-based fuel surcharge program be applied to all railroads. Then we could see that the unreasonable practices and exorbitant compensations are eliminated.

One railroad has proposed and enacted a mileage based fuel surcharge program for consideration and has implemented this program for Agricultural Products. From the BNSF Website we have the following Fuel Surcharge Information: intermodal containers \$0.074/mile, intermodal trailers \$0.12/mile, coal unit trains \$0.22/mile, automotive \$0.27/mile, and Agriculture Products \$0.33/mile for May, 2006.

At the present time, Potlatch's commodities are unable to use the mileage based fuel surcharge program as it has not been implemented by the railroad.

If we applied the BNSF Mileage Program to our products, it would look like this:

### **Potlatch Forest Products Corporation**

**FSC for May 2006:** BNSF & UP = 13.5%, CSX & NS = 16%, CN = 10.75%

**BNSF Mileage FSC for May 2006:** \$0.33/mile

		<b>Miles</b>	<b>FSC</b>	<b>MBF/Car</b>	<b>FSC/MBF<sup>1</sup></b>
<b>UP</b>	<b>Prescott to Dallas</b>				
	Current Rail Program	223	\$347	92	\$3.77
	BNSF Mileage Program	223	\$74	92	\$0.80
<b>UP</b>	<b>St Maries to Tacoma</b>				
	Current Rail Program	356	\$295	102	\$2.89
	BNSF Mileage Program	356	\$117	102	\$1.15

<sup>1</sup> MBF=thousand board feet/lumber

<b>CSX</b>	<b>Memphis to Belchertown, MA</b>				
	Current Rail Program	1232	\$803	92	\$8.73
	BNSF Mileage Program	1232	\$407	92	\$4.42
<b>BNSF</b>	<b>Lewiston to Chicago</b>				
	Current Rail Program	1743	\$622	102	\$6.10
	BNSF Mileage Program	1743	\$575	102	\$5.64
<b>BNSF</b>	<b>Lewiston to Denver</b>				
	Current Rail Program	1083	\$526	102	\$5.16
	BNSF Mileage Program	1083	\$357	102	\$3.50
<b>CN</b>	<b>Gwinn to Chicago</b>				
	Current Rail Program	358	\$234	110	\$2.13
	BNSF Mileage Program	358	\$118	110	\$1.07
<b>CN</b>	<b>Gwinn to Mobile</b>				
	Current Rail Program	1220	\$394	110	\$3.58
	BNSF Mileage Program	1220	\$403	110	\$3.66
<b>BNSF/NS Rule 11</b>	<b>Lewiston to Kingston, PA</b>				
	Current Program	2413	\$1093	102	\$10.72
	BNSF Portion Lew -Chicago	1743	\$622	102	\$6.10
	NS Portion Chicago-Final	670	\$471	102	\$4.62
	BNSF Mileage Program	2413	\$796	102	\$7.81

Lastly, we would like to propose that as fuel costs escalate, we all need to do a “what is reasonable test.” If you were paying this from our individual personal budget, and your wife was the financial officer, could it pass the “explained expenditure.”

Thank you for the opportunity to share this information with you.