Surface Transportation Board
Rail Energy Transportation Advisory Committee
Washington, D.C.

Meeting Minutes - April 26, 2018

The meeting commenced at 9AM with opening remarks by Chairman Ann Begeman and Vice Chairman Deb Miller. In attendance at the meeting were:

George Duggan, BNSF RETAC Co-Chair	Dan Sabin, IANR RETAC Secretary	Mike Higgins, STB RETAC Designated Federal Officer
Ginger Adamiak, KCS	Kent Avery, PBF Energy	Bruce Blanton, USDA
Printz Bolin, UP (for Jacqueline R. White)	Sean Craig, Dairyland Power	Russ Epting, CSX
Steve Ewers, NS	Brian Fuller, Southern Co.	Brad Hildebrand, Cargill
Robert Hulick, Trinity	Lee Johnson, Hess Corp.	Ed McKechnie, WATCO
Karen McClure, FRA	Doug Noem, NCGA	Todd Nuelle, CN
James Rader, Greenbrier	Tony Reck, P&L Railway	John Risch, SMART (for Bob Guy)

RETAC Co-Chairman George Duggan welcomed new member Steve Ewers from Norfolk Southern and also Todd Nuelle, an invited guest from Canadian National Railway.

Preliminary Matters

RETAC Secretary Dan Sabin reported $962.00 of private, member-contributed funds – following payment for the post-meeting lunch – for purposes of covering the Committee's incidental expenses going forward.

RETAC Designated Federal Officer (DFO) Michael Higgins held the election for a new "shipper" Co-Chair to replace Rob Hardman of Dynegy. Mr. Higgins informed the Committee that Brian Fuller, Kent Avery, and Dennis Rackers had come forward as candidates for the position and passed out paper ballots to the members. After the votes were tallied by Mr. Higgins, Mr. Duggan announced that Mr. Fuller was elected as the new Co-Chair.

Industry Segment Reports

Ed McKechnie provided the Railroad Industry Segment Report. He noted a sharp decline in coal carloads with 2017 volumes of 3.24 million, which is 42% lower than in the peak year of 2008. He also noted that crude oil volumes for 2017 were just over 200,000 terminated carloads, down about 350,000 carloads from the peak year of 2014. Frac sand volumes were 560,000 carloads in 2017, up from 2016 volumes of about 310,000 carloads versus the previous peak of 450,000 carloads in 2014. With coal volume down, railroads are experiencing excess capacity in those corridors, but tighter capacity related to crude and sand shipments, particularly in Wisconsin and in West Texas.

Kent Avery and Lee Johnson commented that a major oilfield services company was experiencing train delays at origins in Wisconsin, particularly on CN's former Green Bay & Western line. George Duggan responded that the railroads were converting sand from manifest trains to unit trains, which may improve fluidity. Ed McKechnie responded that another major issue was track space at receiving areas accepting the larger unit trains versus smaller blocks of cars. Todd Nuelle from CN acknowledged the service problems on CN but informed the group that it was working to alleviate a shortage of train crews and locomotives.

Kent Avery commented that Class I railroads are having service issues and asked how much capital is being spent on main line capacity versus intermodal terminals and other facilities. Brad Hildebrand stated that the earlier reduction of people and power is the biggest issue contributing to service problems.

Lee Johnson provided the <u>Oil Industry Segment Update</u>. Among other matters, he noted an increase in the United States' domestic rig count, year over year, and an increase in domestic production. He also observed that growth in crude moving by rail could be anticipated, going forward.

Brad Hildebrand provided the <u>Biofuels Industry Segment Update</u>. Among other matters, he noted a general decline in velocity in ethanol movements, resulting in greater turn times for cars in that service. He noted that tank car prices have likely bottomed out given recent increases in crude by rail demand and rising steel prices. He noted that manufacturers and lessors are busy converting DOT 111 tank cars to the DOT 117R standard. Additionally, he noted that railroads are offering rate incentives to retro-fit DOT 111 cars.

No <u>Coal Mine Industry Segment Update</u> was presented due to an unexpected absence of Committee representatives from that industry segment.

Brian Fuller provided the <u>Utilities Industry Segment Update</u>. He noted that coal generation continues to face headwinds in many power markets due to low prices from competing natural gas and renewable energy generation. He stated that domestic coal markets are fairly stable in regard to price and supply. He also noted that the rail transportation sector has had some challenges over the last six months in certain regions. Wind energy continues to grow briskly in the MISO, SPP, and ERCOT regions, despite the phase out of the production tax credit in the 2015 Omnibus Bill. Seventy-five gigawatts of new wind capacity to come online by 2023 almost doubles the 82 gigawatts in service at the end of 2016.

George Duggan provided the <u>Rail Industry Segment Update</u>. He recognized rail service challenges on the network in late 2017 and early 2018. He noted that railroads continue to spend heavily to meet demand. In 2017, the industry's capital spending and maintenance expenditures on infrastructure and equipment was $24.8 billion, down 4% from 2016. Mr. Duggan noted that according to Federal Railroad Administration data, recent years have been the safest ever for U.S. railroads. On balance, U.S. rail traffic year to date has been mixed, but overall demand is strong. Intermodal volume for U.S. railroads in the first quarter of 2018 was up 5.5% over the same period last year. On the carload side, eight of the 20 commodity categories the AAR tracks were higher in the first quarter of this year over last year, led by crushed stone, sand, and gravel (up 6.4% over last year, driven by continued growth in frac sand shipments); chemicals (up 3.1%, due in part to new chemical industry investments coming on line that use shale gas as inputs); and metallic ores (up 12.7%). But, total U.S. rail carloads were down 0.3%, or 9,027 carloads, in the first quarter, as gains in the commodities listed above were exceeded by declines in motor vehicles and parts (down

6.1%), grain (down 3.8%), and nonmetallic minerals (down 16.3%), among others. U.S. rail carloads of coal in 2017 were up 7.9%, or nearly 324,000 carloads, over 2016, largely due to a 61% increase — nearly 37 million tons — in U.S. coal exports. However, in the first quarter of 2018, U.S. rail carloads of coal were down 0.5%, or 6,017 carloads. Based on favorable overall economic factors, demand for rail freight transportation should remain solid going forward. The freight rail industry welcomed Ann Begeman as STB Chairman and looked forward to full Senate confirmation of Patrick Fuchs and Michelle Schultz, as well as a forthcoming Democratic nominee.

Following the Rail Industry Report, Brad Hildebrand asked about the status of PTC. George Duggan replied that at BNSF, interoperability is the current focus. Ginger Adamiak of KCS reported that they had 40% of the system under operation and expect 100% by the end of the year.

Bob Hulick provided the Railcars Industry Report. Among other matters, he noted that after bottoming out at 45,000 deliveries in 2017, improving covered hopper and tank car demand is expected to drive growth over the next few years. Tank car delivery is expected to be strong by historical standards, but well off the production pace during the shale boom. And, as of Q4 2017, there were 16,612 tank cars in the industry backlog, likely driven by higher tank car replacement demand and economic improvement. With regard to coal, 20.7% of open hoppers and gondolas are currently in storage. With regard to biofuels, the USDA forecasts a 1% increase in U.S. fuel ethanol production in 2018; however, tariffs and trade restrictions from China and Brazil could affect biofuel demand. With regard to crude oil, domestic CBR was expected to remain down while Canadian CBR was forecasted to increase. Railcars used to transport crude oil have dropped by over 29,000 from the 2014 peak. 73.8% of all railcars used to transport crude oil in 2017 were CPC-1232s while 22% were DOT-117s. With regard to petroleum products, it is anticipated that Mexico's energy liberalization is likely to drive carloads of petroleum products in 2018. Frac sand by rail continues to grow but faces challenges from locally-sourced sand. More frac sand is being consumed in horizontal wells, likely increasing carloads moving by rail. As of Q4 2017, there were 17,605 small cube covered hoppers in the industry backlog.

Kent Avery commented that Mexico is structurally short in supply of refined petroleum products and rail transport is viable as far south as Monterrey.

Other Matters

Summary of Written Public Comments. Michael Higgins reported that no written public comments were received. Mr. Higgins also advised that Kristen Nunnally would be taking over his role as DFO for RETAC.

Introduction to STB Rate Reform Task Force. STB staff members Valerie Quinn and Kim Hillenbrand introduced themselves to the Committee, as leaders of the STB Rate Reform Task Force. They explained that the task force would be meeting with stakeholders to explore ideas for streamlining and improving the STB's railroad rate review processes. Ms. Quinn and Mr. Hillenbrand encouraged RETAC members to set up meetings with the task force to share their ideas and views.

Roundtable Discussion. None.

Discussion of possible dates for next meeting. Chairman Begeman and Vice Chairman Miller will review their calendars and circulate dates to the Committee members.

By: /s/ Daniel R. Sabin

Daniel R. Sabin, RETAC Secretary

Certified by:

/s/ George Duggan

George Duggan, RETAC Co-Chairman

/s/ Brian Fuller

Brian Fuller, RETAC Co-Chairman

Date: June 11, 2018