RAIL ENERGY TRANSPORTATION ADVISORY COMMITTEE

INAUGURAL MEETING

HOSTED BY:
THE SURFACE TRANSPORTATION BOARD

UPDATE ON STB ACTIVITY REGARDING RAIL ENERGY TRANSPORTATION ISSUES

BY THOMAS J. BRUGMAN
OCTOBER 24, 2007
RAIL ENERGY TRANSPORTATION ADVISORY COMMITTEE

DISCLAIMER

THIS PRESENTATION REFLECTS THE UNDERSTANDING OF THE PRESENTER REGARDING COMMENTS FILED IN EX PARTE 575, EX PARTE 671, AND EX PARTE 672.

IT IS NOT AN OFFICIAL STATEMENT OF THE SURFACE TRANSPORTATION BOARD REGARDING THE COMMENTS CONTAINED.
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- **STB Activities on Energy**
  - Formal Rate Complaints
  - Tours of Power Plants and The Powder River Basin
  - Ex Parte No. 575 - Railroad Sale or Lease Agreements & "Paper Barriers"
  - Ex Parte No. 671 – Infrastructure Hearing
  - Ex Parte No. 672 – Discussion Issues
    - Coal
    - Ethanol
    - Bio Fuels
  - Creation of the RETAC Committee
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- Ex Parte No. 575 - Public Hearing: Railroad Sale or Lease Agreements & "Paper Barriers,"
- July 27, 2006
- Participants from Utilities, Agriculture, Chemicals, Class 1 and Shortline RR’s, and Various Associations
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• Ex Parte 671 - Public Hearing: Rail Capacity and Infrastructure Requirements
• April 11, 2007
• Participants from Utilities, Agriculture, Chemicals, Class 1 and Shortline RR’s, plus Various Associations and Government Agencies
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• Ex Parte 672 - Rail Transportation of Energy Resources Critical to the Nation's Energy Supply
• Public Hearing in Kansas City, MO
• July 18, 2007
• Participants from Utilities, Railroads, Ethanol Industry, and Various Associations and Government Agencies
• MAJOR ISSUES – COAL
  ➢ 24% of Total US Railroad Traffic by Carload (2007 annualized)
  ➢ Multiple Competition and Service Issues Between Shippers and Railroads
Coal
Carloads originated - US Class I Railroads

<table>
<thead>
<tr>
<th>Year</th>
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<tr>
<td>1997</td>
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<tr>
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<td>2005</td>
<td>7,600,000</td>
</tr>
<tr>
<td>2006</td>
<td>7,800,000</td>
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</tbody>
</table>
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• Coal Shipper Issues From Filings in EP 572, EP 671 and EP 672 - Overall:

  ➢ Coal Dependent On Rail
  ➢ Rail Network Fragile
  ➢ Insufficient Capacity and resulting Congestion
  ➢ Insufficient Investment in Coal Regions
  ➢ Poor Merger Planning
  ➢ Service Failure Means Higher Electricity Prices to US Economy
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- Coal Shipper Issues From Filings in EP 572, EP 671 and EP 672 - Reduced Competition:
  - Lack Of Competition
  - RR Mergers and Acquisitions
  - Destruction of Excess Capacity
  - RR’s Not Held Accountable For Service
  - RR’s Have a Take it Or Leave it Attitude
  - Shortlines Restricted - Paper Barriers
  - Haz Mat Policies:
    - Anhydrous Ammonia
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• Coal Shipper Issues From Filings in EP 572, EP 671 and EP 672 - Service:
  ➢ Subject To Capacity /Congestion Spillover From other commodities
  ➢ Unit Train Cycle Time Deterioration
  ➢ Service Issues Limit The Amount of Coal Delivered to Utilities
  ➢ Not Receiving 100% of Coal Required
  ➢ Rushing To Realize Short Term Cost Savings
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  - Gateway Congestion
  - Closure of Yards and Trackage
  - Adding More Train Sets but Not Improving Train Performance
  - Deferred Roadbed Maintenance
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• Railroads Respond - From End-Of-Year Peak Letters to STB and Filings:
  - RR’s Are Only One Link In The Supply Chain
  - Mine Disruptions
  - Receiver Plant and Equipment Failures
  - Trainloads Held Near Destination
  - Utility Stockpile Strategies
    - Inventory Reduction
    - Sufficient Inventory to Cover Service Fluctuations
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- Railroad Efforts to Improve Service
  - Invested $100 Billion from 1990 – 2006 (per DOT Filing in EP 671- Does not Include Maintenance)
  - Increased Capacity in the Form of Second, Third and Fourth Mains
  - Expanding Centralized Traffic Control (CTC) Signaling
  - Diversions of Trains Around Encumbered Mines
  - Running Repairs to Unit Trains
  - Increasing Train Tonnage
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• MAJOR ISSUES - ETHANOL
Ethanol Carloads 1995-2005
(non-linear time scale)
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• Ethanol
  - Gasoline Additive
  - Unit Train and Single Car Approach
  - Smaller Volume than Coal
  - Less Than 5% of Total Railroad Traffic
  - Essential to US Energy Needs
  - Will Capacity Issues in Other Commodities Impact Ethanol Service?
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• Bio Fuels
  ➢ Bio-Diesel, etc.
  ➢ Smaller Volumes than Ethanol
  ➢ Developing Markets
  ➢ Primarily Single Car Shipments at this time
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• Questions?
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