



August 4, 2014

Surface Transportation Board Members
395 E Street SW
Washington, DC 20423-0001

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Dear Surface Transportation Board Members:

Please find attached the following comments, prepared for Consumers United for Rail Equity, (CURE) by Escalation Consultants, Inc., on STB Ex Parte No. 661 (Sub. No. 2) Railroad Fuel Surcharges Safe Harbor.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Sharp", is positioned below the word "Sincerely,".

Steve Sharp
President of CURE

Curriculum Vitae
Henry Julian Roman (Jay Roman)

Jay Roman is the President of Escalation Consultants, Inc. A consulting firm engaged in economic analysis and consultation related to prices and price movement in rail transportation contracts. His business address is 4 Professional Drive, Suite 129, Gaithersburg, MD 20879. Since founding Escalation Consultants in 1979, Mr. Roman has assisted a large number of companies in controlling prices in rail transportation agreements and on an annual basis he is involved with billions of dollars in rail spend.

Rail Rate Analysis - Mr. Roman regularly performs studies of rail rates for major companies with movements in the U.S. and Canada. Some of the industries he works with are: coal, chemical, petroleum, automobile, grain, steel, fertilizer, farm products and forest product industries. The studies provide rate information for key products, which enables companies to better structure their negotiations with railroads.

Rail Databases - Mr. Roman is the owner and developer of Rail Rate Checker which is a very large database that contains data on rail rates, rate changes, rail costs, volumes and rail profit by commodity group. A large number of companies subscribe to this database to assist in determining what reasonable rates are for their rail movements and to determine opportunities for reducing rail expenses.

Rail Bid Evaluations - Mr. Roman is the owner and developer of the Optimized Rail Bid Evaluation (ORBE) program. The ORBE program is the only computer program that automatically determines shipper's least spend from rail bids, while uncovering win/win opportunities between shippers and railroads.

Seminars on Rail Contracting - Mr. Roman conducts the most attended and recommended rail negotiation seminar, which is held twice a year. His seminars have been attended by thousands of people in the U.S. and Canada and virtually all industries that ship by rail have participated in his rail contracting seminars.

Expert Witness Testimony - Mr. Roman has testified as an expert on pricing issues involving coal and rail transportation before the Federal Energy Regulatory Commission, in federal and state courts, before the National Energy Board of Canada, as well as in arbitration cases in the U.S. and Canada. He has also testified before the Surface Transportation Board.

Strategic Planning and Rail Negotiations - Escalation Consultants is actively involved in bid evaluations, strategic planning and rail negotiations totaling several billion dollars a year in rail spend with rail shippers.

Rail Fuel Surcharge Analysis - Mr. Roman performed the economic analysis of railroad fuel surcharges jointly for the National Industrial Transportation League and the National Grain and Feed associations when the railroad fuel surcharge programs first started. He testified twice in the 2006 STB Fuel Surcharge Hearing.

Escalation Consultants Represents the Rail Shipper Community in many Projects
A few examples of recent projects follow:

- Escalation Consultants determined the cost of rail as an alternative to pipeline Crude Oil. The results were the only rail rate benchmarks presented to the National Energy Board of Canada
- Escalation Consultants analyzed all rates and volumes on the entire U.S. rail system to determine the impact of increased competitive access on railroads and shippers. The results were submitted to the Surface Transportation Board to support the National Industrial Transportation League's (NITL) competitive switching proposal
- Escalation Consultants determined the competitive status of all rail stations in the U.S. and summarized the degree of captivity by state and Congressional District. This was the first time in more than 50 years the results of a rail study were sent to the President by a sitting member of Congress.

Publications - Mr. Roman is the publisher of the *Rail Price Advisor* newsletter, a monthly newsletter dealing with issues related to railroad costs, revenue, rail rates, escalation and what shippers are doing to improve service and rail rates. He also contributes monthly articles to the publication *Rail Business*.

Education - B.S. Major in Accounting, University of Maryland, 1973.

Before the Surface Transportation Board

**STB Ex Parte No. 661 (Sub. No. 2)
Railroad Fuel Surcharges Safe Harbor**

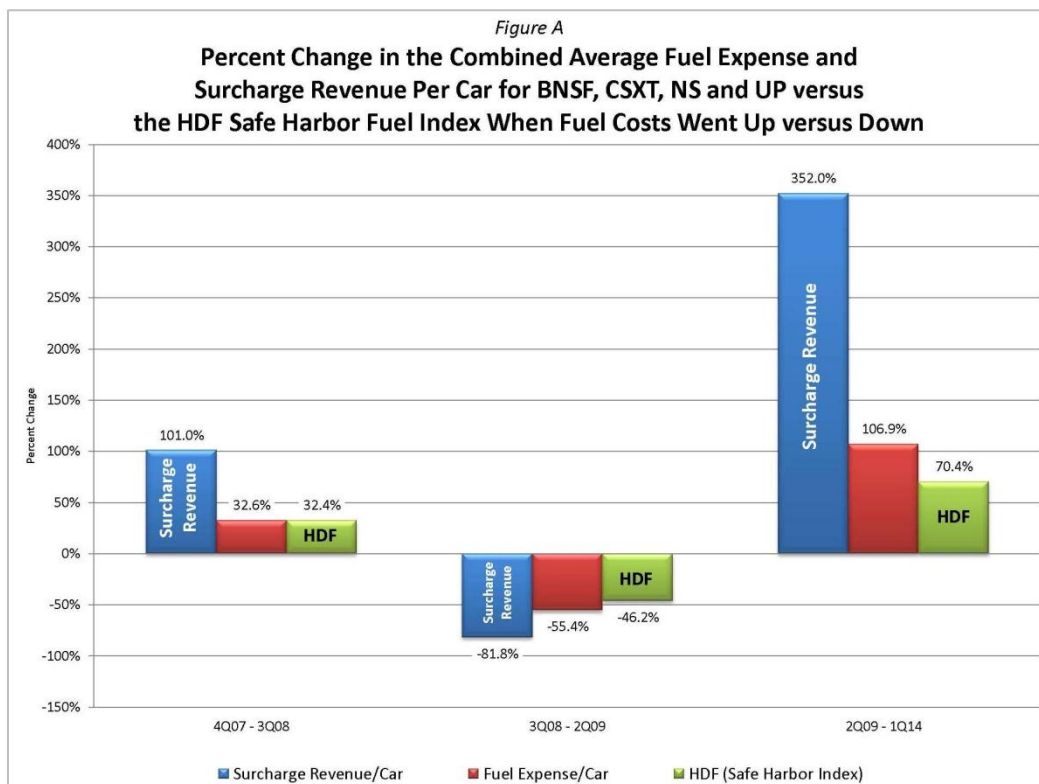
Comments from Consumers United for Rail Equity (CURE)

Comments from Consumers United for Rail Equity (CURE) on Ex Parte 661

Summary

This is the first fuel surcharge hearing since railroads were first required to submit information on the results of their surcharge programs to the STB. The railroads' surcharge submittals to the STB demonstrate that:

- Three of the four major U.S. railroads' fuel surcharge programs are over-recovering their fuel cost increases. They are BNSF, CSXT and UP.
- During time periods when fuel prices increased railroads' surcharge revenue per car increased more than three times greater than railroads' fuel expense per car.
- Figure A shows that the Safe Harbor Index, On-Highway Diesel Fuel (HDF), is not the primary cause of the over-recovery problem with surcharge programs.



- Figure A shows that the HDF did not keep up with railroads' actual cost increases between the second quarter 2009 and the first quarter 2014, however, railroads had their largest over-recovery from their surcharge programs during this time period.
- The ratio of how much the HDF index must change to equal a 1¢ increase in the surcharge per mile appears to be the primary cause for railroads' over-recovery of fuel costs. (Ratio example, 5¢ change in HDF = 1¢ change in surcharge per mile)
 - It is a problem that railroads have not provided any support for the ratio of how much the HDF must change to equal a 1¢ change in the surcharge per mile as this ratio determines the amount of a surcharge.
- STB oversight is needed over the ratio of the change in the HDF which is needed to generate a 1¢ change in the surcharge per mile.
- The cumulative effect of railroads' fuel surcharge programs creates long term problems because the over-recovery that occurs when fuel prices increase never goes away. The over-recovery simply remains embedded in the surcharges paid by shippers.
- Railroads have gotten away from an escalation method for fuel and other railroad costs that had oversight at the STB (RCAF Index) and switched to escalating fuel through surcharges that have little or no oversight at the STB. That has been a great trade-off for railroads, but it has become very costly for rail shippers.
- Railroads' over-recovery from their fuel surcharge programs represents billions of dollars in additional profit to railroads.

Background

In the STB's May 11, 2006 Fuel Surcharge Hearing there was a good deal of confusion as to whether railroads were over-recovering from their fuel surcharge programs. In the morning of the hearing, shippers' produced numbers which showed that they were paying significantly more in fuel surcharges to railroads than railroads' were incurring in increased fuel expense. Shippers all expressed the concern that railroads fuel surcharge programs lacked transparency. In the afternoon of the hearing, railroads presented a very different story. Railroads' produced numbers that showed they were under-recovering from their fuel surcharge programs. The question that needed to be answered was, whose numbers were correct? To help answer this question the STB required railroads to provide greater transparency on their fuel surcharge programs. Starting in the fourth quarter of 2007 railroads have been required to submit quarterly information on the following:

- Total fuel cost;
- Total gallons of fuel consumed;
- Total increase or decrease in cost of fuel;
- Total revenue from fuel surcharges; and,
- Revenue from fuel surcharges on public, regulated traffic.

ExParte 661 is the first STB proceeding on railroads' fuel surcharges since the railroads were required to submit information on their surcharge programs to the STB. The clarity that rail shippers asked for and the STB required railroads to provide, in order to determine whether railroads are over-recovering from these programs, is now available between the fourth quarter of 2007 and the first quarter of 2014 (six and one quarter years).

How Fuel Surcharge Revenue has Changed in Relation to Fuel Expenses

The results of the railroads' surcharge filings show that the shippers' analysis of fuel surcharges in the 2006 STB Hearing, which showed that railroads were significantly over-recovering revenue from their surcharge programs, was correct.

The data railroads are required to submit to the STB shows that fuel surcharge revenue has increased substantially more than fuel expenses at three of the four major U.S. railroads. Table 1 below summarizes the difference in how each railroads' average fuel surcharge revenue per car has changed in relation to its average fuel expense per car.¹

<i>Table 1</i> Percent Difference in Surcharge Revenue and Fuel Expense for Major US Railroads² (4Q2007 - 1Q2014)			
	% Chg. in Surcharge Rev/Car	% Chg. In Fuel Exp/Car	Difference
UP	71.0%	9.0%	61.9%
CSXT	59.3%	25.3%	34.0%
BNSF	40.0%	24.4%	15.6%
NS	29.2% ³	30.2%	-1.0%

Many shippers pay millions of dollars to railroads through fuel surcharges and a 15.6% to 61.9% difference between how surcharge revenue changes in relation to fuel expenses is a big dollar issue.

¹ The fourth quarter of 2007 was the first time railroads were required to submit their surcharge revenue to the STB so this is the base for all calculations.

² The railroads' fuel surcharge revenue and fuel expense is taken from each railroads' quarterly fuel surcharge filing to the STB. The carloads that are divided into surcharge revenue and fuel expense to get a per carload value are taken from each railroads' quarterly filing to the Security & Exchange Commission. The values supporting each of the tables, as well as, the graphs for each railroad are included in Attachment A.

³ The change in NS' average surcharge revenue per car is not as accurate as it is on the other railroads as NS collects almost no surcharge revenue from its regulated traffic. For example, regulated traffic only represents seven-tenths of one percent (0.7%) of all surcharge revenue NS collected in the first quarter of 2014.

Change in Surcharge Revenue When Fuel Costs Increase versus When Fuel Costs Decrease

Attachments B through E track the quarterly change in fuel surcharge revenue and fuel expense per car for BNSF, CSXT, NS and UP. These graphs highlight the problem with railroad fuel surcharges. In reviewing these graphs, it needs to be recognized that a surcharge that has over-recovery of fuel costs built into it will increase much more than fuel expense when fuel prices increase rapidly, but it also should be recognized that the converse is true. If a surcharge program has over-recovery of rising fuel costs built into it then fuel surcharge revenue will decrease substantially more than fuel costs when the price of fuel decreases. If a railroad wants to win (over-recover fuel cost increases from a surcharge program) when fuel costs go up then it must be prepared to lose when fuel costs go down. The degree to which surcharge revenue exceeds fuel costs when fuel prices increase and the degree to which surcharge revenue decreases below the change in fuel costs when fuel prices decrease demonstrate the extent of the problem with a railroads fuel surcharge program.

Table 2 contains the percent change in surcharge revenue and expense per car for each of the four major U.S. railroads in relation to the On-Highway Diesel Fuel (HDF) index during time periods when fuel prices increased as well as when fuel prices decreased. Table 2 also contains the four railroad average (BNSF, CSX, NS and UP) percent change in fuel expense and fuel surcharge revenue per car in relation to the HDF index.

Table 2

**Percent Change in Surcharge Revenue Per Car
in Relation to HDF Index When Fuel Prices Increased and Decreased**

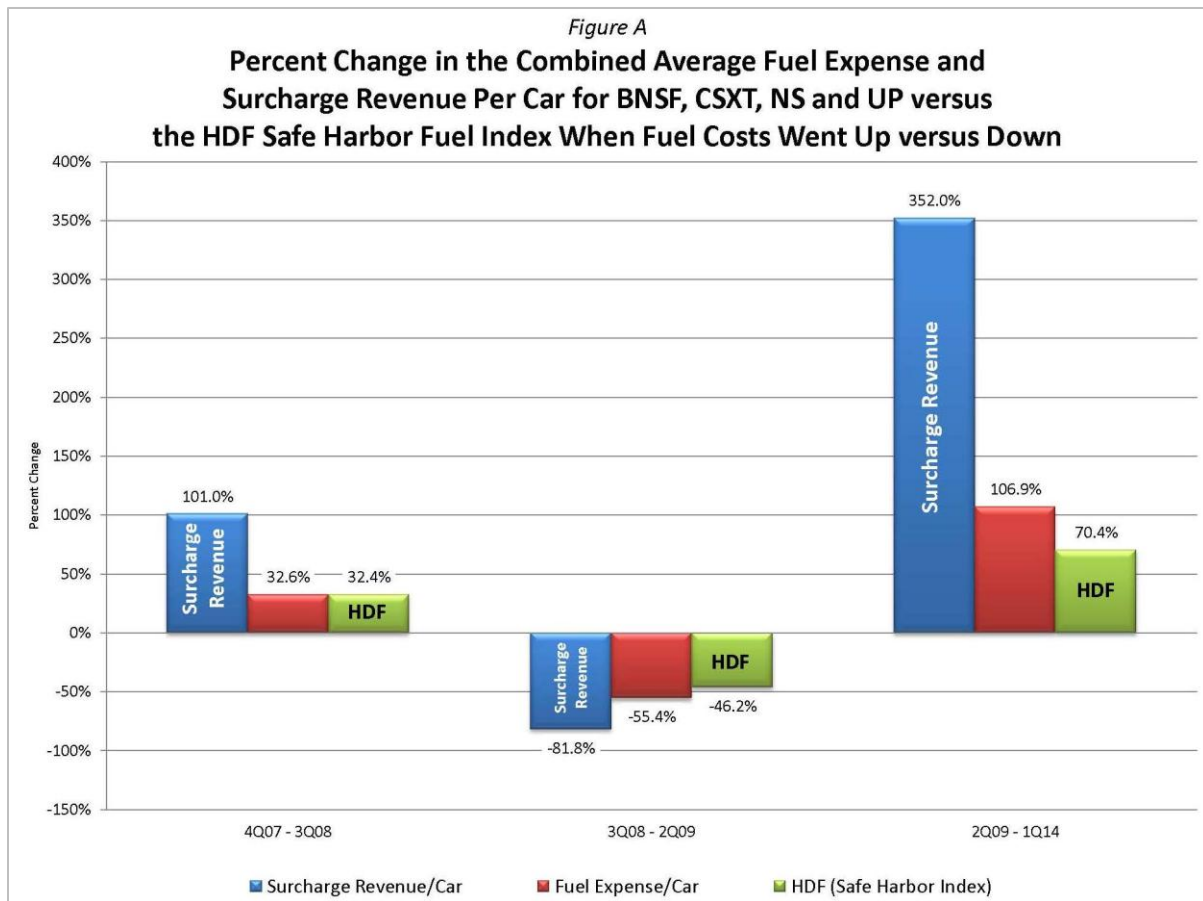
	BNSF	CSXT	NS	UP	Avg. Surcharge Rev/Car for 4 US Railroads	EIA Retail On-Highway Diesel Prices (US Avg.)
4Q07 - 3Q08	94.4%	104.5%	118.2%	86.8%	101.0%	32.4%
3Q08 - 2Q09	-71.8%	-85.7%	-84.3%	-85.4%	-81.8%	-46.2%
2Q09 - 1Q14	155.7%	446.3%	278.1%	528.1%	352.0%	70.4%

**Percent Change in Fuel Expense Per Car
in Relation to HDF Index When Fuel Prices Increased and Decreased**

	BNSF	CSXT	NS	UP	Avg. Surcharge Exp/Car for 4 US Railroads	EIA Retail On-Highway Diesel Prices (US Avg.)
4Q07 - 3Q08	36.7%	33.7%	32.5%	27.4%	32.6%	32.4%
3Q08 - 2Q09	-52.0%	-55.6%	-56.2%	-57.8%	-55.4%	-46.2%
2Q09 - 1Q14	89.5%	111.0%	124.4%	102.8%	106.9%	70.4%

Note: Surcharge Revenue and Expense are from the STB Fuel
Surcharge filings and Carloads are from the railroads' SEC filings.

The bar chart in Figure A summarizes the changes in Table 2 and it shows that surcharge revenue per car has increased substantially more than fuel expense per car during time periods when fuel costs increased. Figure A also shows that surcharge revenue decreased more than fuel costs when the price of fuel declined.



The issues with the changes in surcharge revenue and fuel expense contained in Figure A are summarized as follows:

- Fourth quarter 2007 to third quarter 2008 – Surcharge revenue increased 3.1 times more than fuel expense and the HDF index (101% surcharge revenue versus 32.6% fuel expense and 32.4% HDF).
- Third quarter 2008 to second quarter 2009 – The decrease in surcharge revenue was approximately 30% greater than the decrease in fuel expense and the HDF index (-81.8% surcharge revenue versus -55.4% fuel expense and -46.2% HDF)

- Second quarter 2009 to first quarter 2014 – Surcharge revenue increased 3.3 to 5 times more than fuel expense and the HDF index (352.0% surcharge revenue versus 106.9% fuel expense and 70.4% HDF).

These changes show that fuel surcharge revenue per car increased more than three times the increase in railroads' fuel expense per car when fuel costs were increasing. Over the last four and three quarter years (2Q2009 to 1Q2014), surcharge revenue increased five times more than the increase in the HDF index (352.0% surcharge revenue versus 70.4% HDF index). These changes clearly show that railroads are over-recovering their fuel expenses through their surcharge programs.

The Change in the HDF Index is Not the Primary Reason for Fuel Surcharge Problems

The bar chart in Figure A shows that the HDF index is not the cause of the railroads' over-recovery of fuel expenses. For example, from the fourth quarter 2007 to the third quarter 2008 the HDF increased by 32.4%, while the average fuel expense per car for the four major U.S. railroads increased almost the same at 32.6%. The HDF tracked the increase in railroads' fuel expense very closely during this time period, however, railroads' average surcharge revenue per car increased more than 100%, which was 3 times greater than fuel expense and HDF index. The reason for this is that the amount of a surcharge is determined by much more than the change in the HDF index. Railroad surcharges are also impacted by:

- The strike price from which fuel cost increases are calculated;
- The surcharge per mile that goes into effect when the HDF index equals the strike price; and,

- The number of cents that the HDF index must change in order to impact the surcharge per mile when the HDF index goes above the strike price.

For example, the UP Standard Mileage Based Fuel Surcharge Program is based on the HDF index. When the HDF index equals \$2.30, the fuel surcharge equals \$0.05 per mile and for every additional \$0.05 increase in the HDF index, the fuel surcharge is increased by \$0.01 per mile. This is a ratio of five to one, meaning that each five cent increase in the HDF index equals a one cent increase in the fuel surcharge per mile.

The HDF index reached a value of \$3.893 in the month of January 2014 and this value was used for the UP March 2014 surcharge which resulted in an increase of \$1.593 from the UP \$2.30 strike price for surcharges ($\$3.893 - \$2.30 = \$1.593$). Each \$0.05 increase above the \$2.30 strike price equals a \$0.01 increase per mile in the surcharge and this equates to \$0.319. When the \$0.319 is added to the \$0.05 per mile, which is effective when the \$2.30 strike price is reached, the fuel surcharge totals to \$0.36 per mile ($\$1.593 \div \$0.05 = \$0.319 + \$0.05 = \0.36) for March of 2014.⁴

The question becomes, why is there a five to one ratio for the change in the HDF to generate a one cent change in the fuel surcharge per mile? In other words, why does the HDF not need to change by 10¢ (10 to 1 ratio) or 20¢ (20 to 1 ratio) to cause a 1¢ change in the fuel surcharge per mile?

⁴ The UP fuel surcharge per mile is rounded down to \$0.36 as it has not reached the next highest surcharge per mile of \$0.37.

The railroad has not provided support for using a 5¢ change in the HDF to generate a 1¢ change in the surcharge per mile and this appears to be why the over recovery of fuel surcharge revenue is occurring. Just consider the changes between the second quarter of 2009 and the first quarter of 2014 in Table 2. During this time period railroads' fuel expense per car increased 36.5% more than the HDF index (106.9% average increase in fuel expense per car minus 70.4% increase in HDF = 36.5% difference). Being as the HDF index increased less than railroads' fuel expense it would be logical that railroads would have under-recovered their increase in fuel expenses if the HDF index was the primary factor that determined the accuracy of fuel surcharges. In fact, even though railroads' fuel expense per car increased 36.5% more than the HDF index Table 2 shows that this was the time frame where railroads had their largest over-recovery of fuel costs through their surcharge programs.

In order for railroads to be allowed to continue using their surcharge programs the ratio of the number of cents that need to change in the HDF for each 1¢ change in the fuel surcharge per mile must be supported by the railroads and be given oversight at the STB. The dollars impacted by these calculations are just too large to ignore.

Table 3 demonstrates the importance of the ratio of how many cents the HDF index could change to cause a 1¢ change in the surcharge per mile. Table 3 shows the impact on the fuel surcharge per mile based on a 1¢ to a 20¢ change in the HDF index needed to generate a 1¢ change in the fuel surcharge per mile. Table 3 shows that the impact on the fuel surcharge per mile ranges between \$0.12 to \$1.64.⁵ Clearly the ratio of how much the HDF should change in order to cause

⁵ More details for the calculations of the fuel surcharge per mile based on a 1¢ to a 20¢ change in the HDF index are contained in Attachment F.

the fuel surcharge per mile to change is very important and appears to be the reason why railroad fuel surcharges are over recovering their fuel cost increases.

Table 3

Fuel Surcharge Per Mile Resulting from the Number of Cents the HDF Index Needs to Change to Impact the Per Mile Surcharge

Increase in HDF		Potential HDF Change Needed for 1¢ Change in Surcharge/Mile		Fuel Surcharge/Mile Pre Additions		\$2.30 Strike Price Addition ⁽¹⁾		Fuel Surcharge Per Mile
\$1.593	÷	\$0.01	=	\$1.593	+	\$0.05	=	\$1.64
\$1.593	÷	\$0.02	=	\$0.797	+	\$0.05	=	\$0.84
\$1.593	÷	\$0.03	=	\$0.531	+	\$0.05	=	\$0.58
\$1.593	÷	\$0.04	=	\$0.398	+	\$0.05	=	\$0.44
\$1.593	÷	\$0.05	=	\$0.319	+	\$0.05	=	\$0.36
\$1.593	÷	\$0.06	=	\$0.266	+	\$0.05	=	\$0.31
\$1.593	÷	\$0.07	=	\$0.228	+	\$0.05	=	\$0.27
\$1.593	÷	\$0.08	=	\$0.199	+	\$0.05	=	\$0.24
\$1.593	÷	\$0.09	=	\$0.177	+	\$0.05	=	\$0.22
\$1.593	÷	\$0.10	=	\$0.159	+	\$0.05	=	\$0.20
\$1.593	÷	\$0.11	=	\$0.145	+	\$0.05	=	\$0.19
\$1.593	÷	\$0.12	=	\$0.133	+	\$0.05	=	\$0.18
\$1.593	÷	\$0.13	=	\$0.123	+	\$0.05	=	\$0.17
\$1.593	÷	\$0.14	=	\$0.114	+	\$0.05	=	\$0.16
\$1.593	÷	\$0.15	=	\$0.106	+	\$0.05	=	\$0.15
\$1.593	÷	\$0.20	=	\$0.080	+	\$0.05	=	\$0.12

⁽¹⁾ At \$2.30/gallon there is a 5¢ addition to the UP surcharge per mile.

Note: Surcharge per mile is rounded down to the full cent per mile value.

The Cumulative Impact of Railroads' Fuel Surcharge Programs Creates Long Term Problems

All data shows that the railroads' fuel surcharge programs allow an over-recovery of their fuel cost increases when the price of fuel is increasing. This is a big problem because these programs are based on the cumulative change in fuel cost. For example, the \$2.30 per gallon HDF strike price represents the base from which fuel surcharges are calculated for the UP's standard HDF mileage based surcharge. The last time the price of HDF was as low as \$2.30 was in the first and

second quarters of 2009. This means that the fuel surcharge paid in 2014 is based on the change in fuel costs from early 2009. When a surcharge is recovering more than the increase in a railroad's fuel costs that problem remains embedded in the surcharge until:

- Fuel prices decrease;
- The problems with the surcharge are corrected by the railroad; or until,
- The STB provides greater oversight over the railroads' surcharge programs and requires a change.

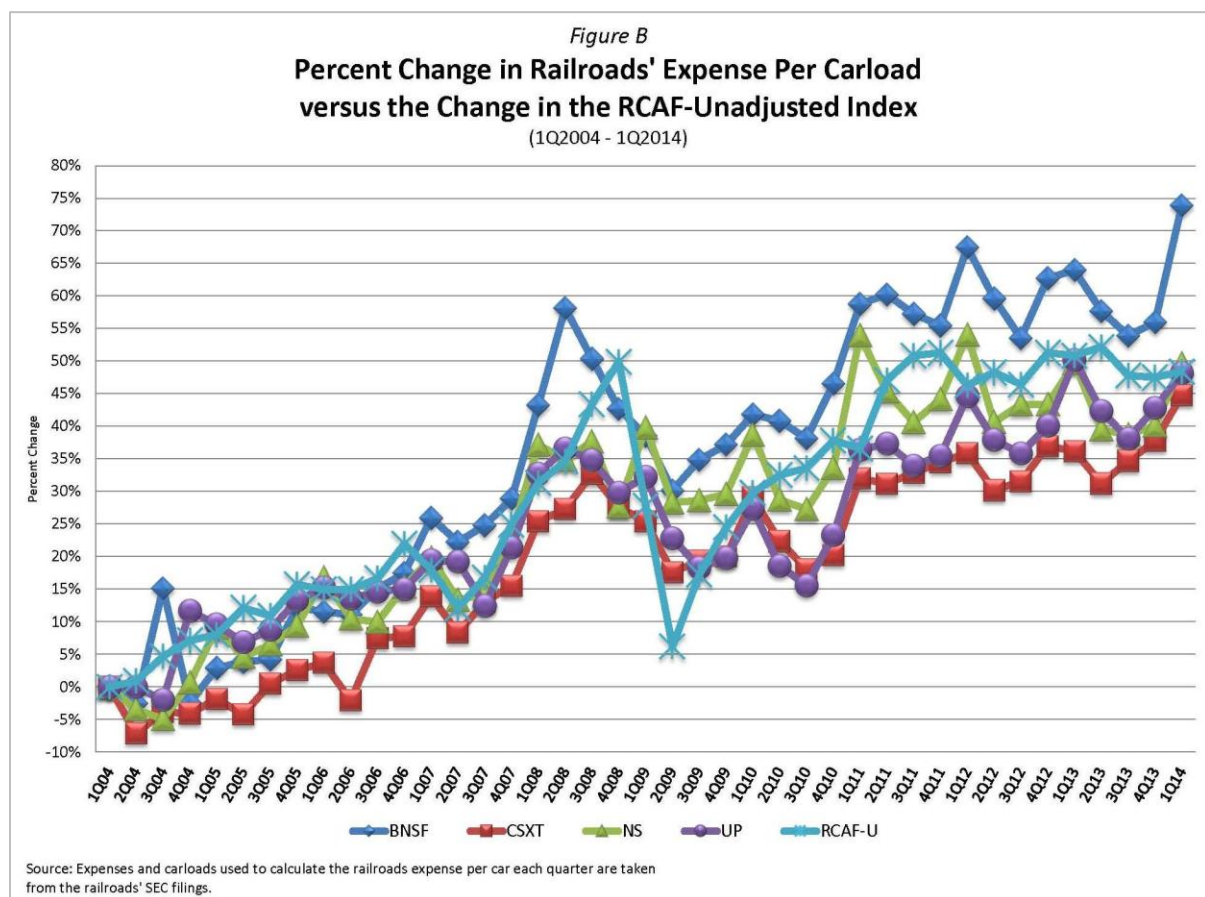
Until one of these scenarios happens, fuel surcharge programs will continue to represent a hidden transfer of revenue (additional profit) from shippers to railroads. This transfer of revenue is occurring under the guise of reimbursement for fuel expenses and with HDF index values in the \$4.00 per gallon range, this has become a very large revenue source for railroads and a very large expense for rail shippers.

STB Used to Have Oversight Over Railroad Rate Increases, But That is No Longer the Case

The STB approves the calculation of the RCAF index, which has historically been used to escalate all rail costs, including the cost of fuel. The question then becomes, why should oversight of fuel surcharges be any different than the oversight of the RCAF index? In fact, railroads now use the RCAF index very infrequently, which make the approval of their fuel surcharge programs much more important than the approval of RCAF index calculations.

The decreased use of the RCAF index by railroads to escalate fuel and other railroad costs is directly related to the increased use of fuel surcharges by railroads. The STB has stated that it is an unreasonable business practice to escalate by the RCAF index if you also have a fuel

surcharge as this represents a double counting of fuel escalation because fuel represents a large portion of the content of the RCAF index. As a result, railroads have opted out of using the RCAF index because they prefer the benefits they get from fuel surcharges. Figure B shows that the RCAF index has reasonably tracked the percent change in railroads' total expense per car, including fuel expense, over the last ten years. In fact, the changes in the RCAF index tracks the change in railroads' total costs more accurately than the surcharges track the change in railroads' cost of fuel.



Railroads have gotten away from an escalation method (RCAF index) for fuel and other railroad costs that had oversight at the STB and switched to escalating fuel through surcharges that have

little or no oversight at the STB. That has been a great trade-off for railroads, but it has become very costly for rail shippers.

Results of Fuel Surcharge Problems

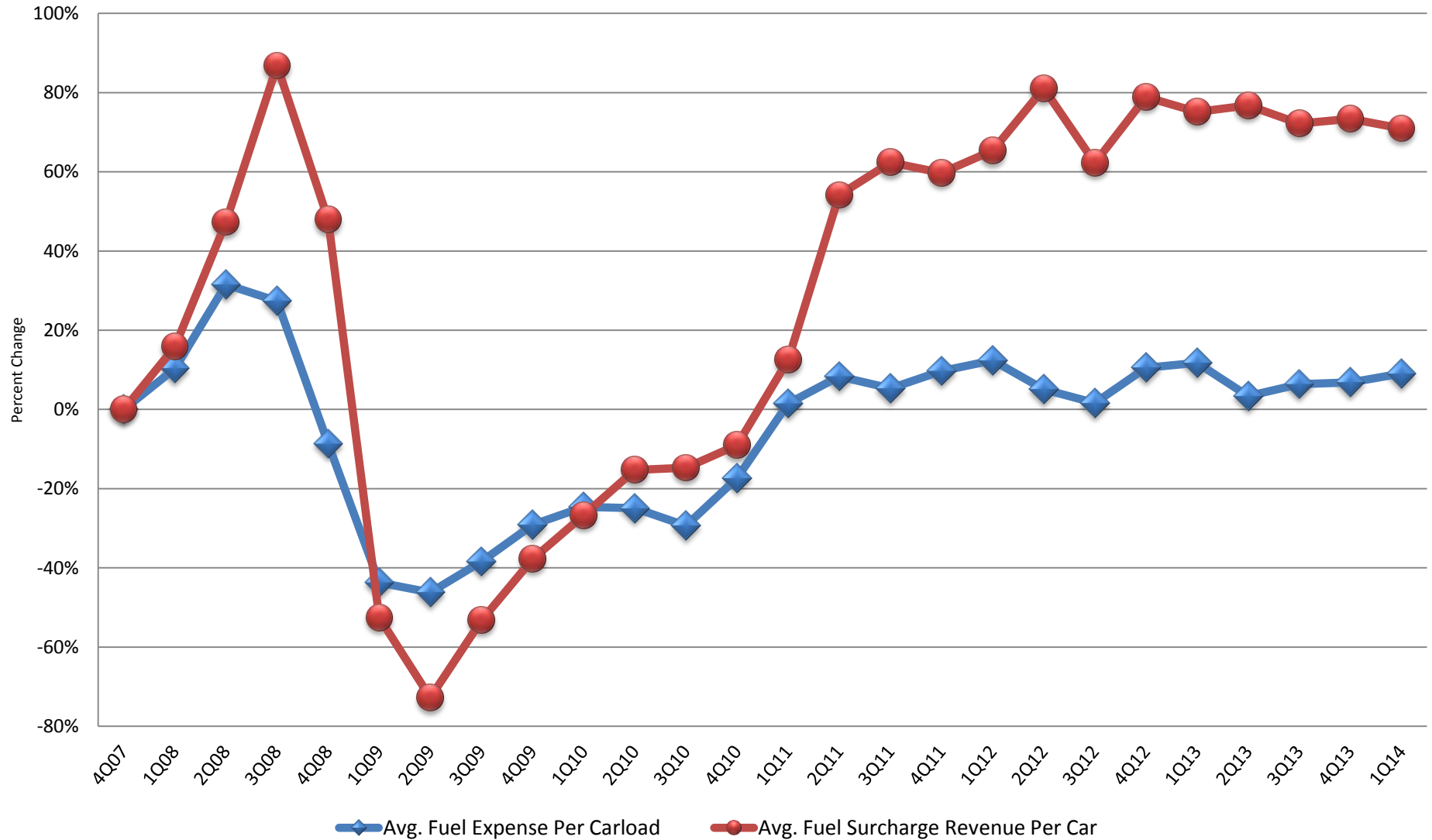
Railroads' over-recovery from their fuel surcharge programs represents billions of dollars in additional profit to railroads. Fuel surcharge programs have, therefore, been great for railroads but this has been at the expense of rail shippers and ultimately the consumer.

Action is needed at the STB to control the railroads' ability to increase the cost of rail freight and the profits railroads obtain from shippers' movements under the guise of being reimbursed for the increased cost of fuel.

Support for Difference in Surcharge Revenue and Fuel Expense Per Car in Table 1 and for Graphs in Attachments B through E

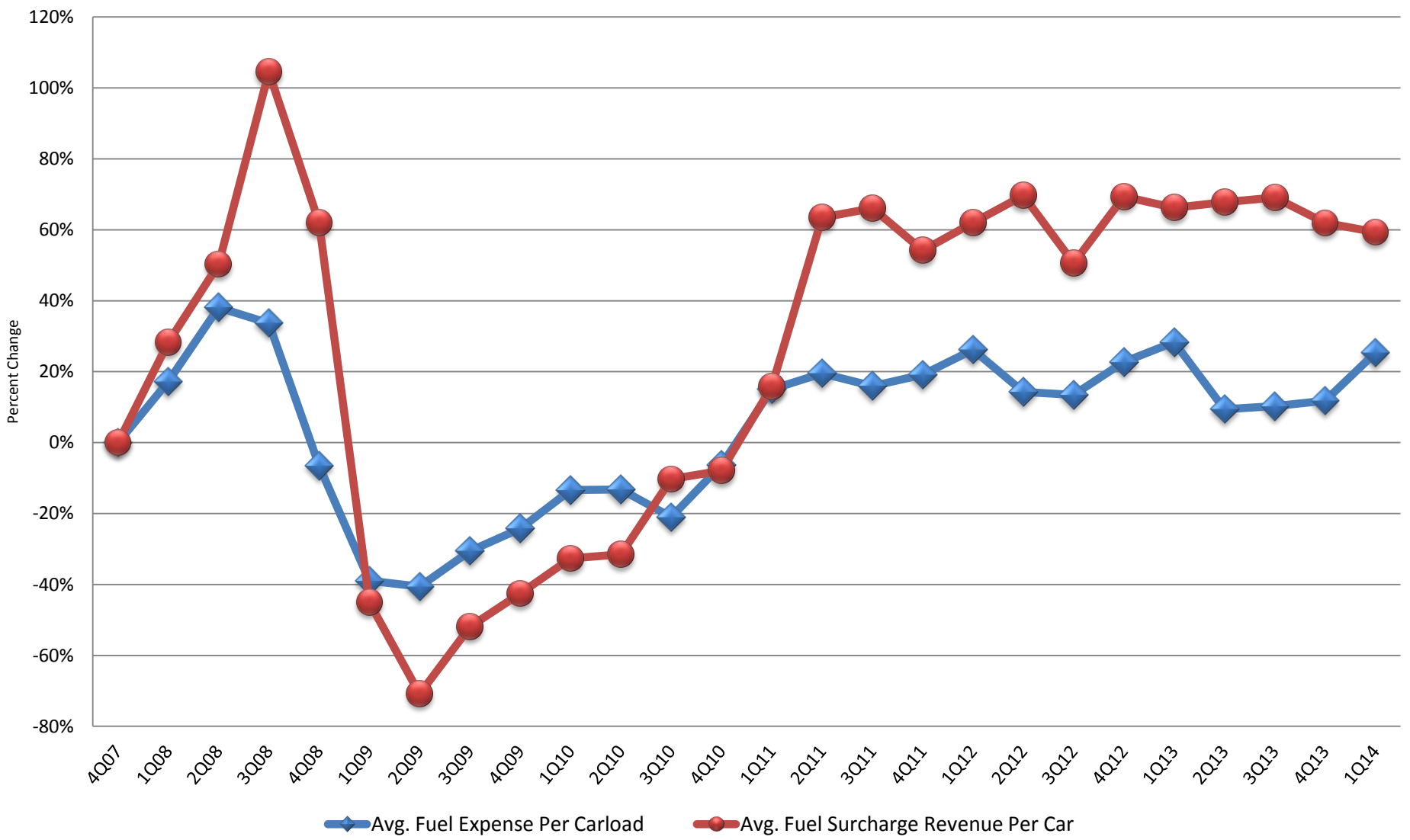
	BNSF					CSXT					NS					UP				
	Fuel Cost	Carloads	FSC Rev/Car	Expense/Car	Total Revenue from Fuel Surcharge	Fuel Cost	Carloads	FSC Rev/Car	Expense/Car	Total Revenue from Fuel Surcharge	Fuel Cost	Carloads	FSC Rev/Car	Expense/Car	Total Revenue from Fuel Surcharge	Fuel Cost	Carloads	FSC Rev/Car	Expense/Car	Total Revenue from Fuel Surcharge
4Q07	\$1,007,052,000	2,600,000	\$205.32	\$387.33	\$533,838,000	\$377,935,000	1,761,000	\$108.39	\$214.61	\$190,869,000	\$356,971,000	1,870,100	\$129.31	\$190.88	\$241,821,000	\$907,969,000	2,444,000	\$167.48	\$371.51	\$409,327,000
1Q08	\$1,060,638,000	2,486,000	\$257.98	\$426.64	\$641,330,000	\$431,969,000	1,717,000	\$139.02	\$251.58	\$238,689,000	\$408,084,000	1,828,000	\$174.48	\$223.24	\$318,946,000	\$957,163,000	2,335,000	\$194.01	\$409.92	\$453,022,000
2Q08	\$1,306,380,000	2,509,000	\$325.05	\$520.68	\$815,540,000	\$526,022,000	1,775,000	\$162.85	\$296.35	\$289,058,000	\$496,970,000	1,901,000	\$215.39	\$261.43	\$409,454,000	\$1,158,479,000	2,371,000	\$246.75	\$488.60	\$585,036,000
3Q08	\$1,371,502,000	2,590,000	\$399.06	\$529.54	\$1,033,576,000	\$496,928,000	1,732,000	\$221.68	\$286.91	\$383,950,000	\$479,407,000	1,895,300	\$282.21	\$252.95	\$534,874,000	\$1,134,751,000	2,398,000	\$312.88	\$473.21	\$750,284,000
4Q08	\$969,181,000	2,409,000	\$311.47	\$402.32	\$750,320,000	\$321,580,000	1,603,000	\$175.53	\$200.61	\$281,368,000	\$274,674,000	1,725,200	\$208.40	\$159.21	\$359,531,000	\$732,017,000	2,157,000	\$247.75	\$339.37	\$534,404,000
1Q09	\$623,707,000	2,128,000	\$147.70	\$293.10	\$314,300,000	\$185,864,000	1,419,000	\$59.54	\$130.98	\$84,482,000	\$163,522,000	1,455,600	\$64.24	\$112.34	\$93,503,000	\$386,395,000	1,847,000	\$79.45	\$209.20	\$146,753,000
2Q09	\$518,945,000	2,041,000	\$112.37	\$254.26	\$229,351,000	\$179,839,000	1,411,000	\$31.61	\$127.45	\$44,604,000	\$156,466,000	1,412,300	\$44.20	\$110.79	\$62,420,000	\$370,047,000	1,852,000	\$45.59	\$199.81	\$84,428,000
3Q09	\$617,051,000	2,137,000	\$145.96	\$288.75	\$311,910,000	\$218,429,000	1,465,000	\$52.13	\$149.10	\$76,372,000	\$197,454,000	1,522,200	\$64.92	\$129.72	\$98,815,000	\$465,661,000	2,035,000	\$78.34	\$228.83	\$159,413,000
4Q09	\$650,747,000	2,112,000	\$173.88	\$308.12	\$367,245,000	\$243,673,000	1,498,000	\$62.26	\$162.67	\$93,262,000	\$225,391,000	1,567,200	\$73.27	\$143.82	\$114,824,000	\$540,511,000	2,052,000	\$104.28	\$263.41	\$213,986,000
1Q10	\$669,542,000	2,099,000	\$200.86	\$318.98	\$421,596,000	\$276,286,000	1,486,000	\$72.99	\$185.93	\$108,468,000	\$256,964,000	1,582,900	\$100.44	\$162.34	\$158,983,000	\$583,046,000	2,082,000	\$122.76	\$280.04	\$255,587,000
2Q10	\$775,734,000	2,248,000	\$212.33	\$345.08	\$477,323,000	\$297,679,000	1,598,000	\$74.21	\$186.28	\$118,589,000	\$262,076,000	1,719,800	\$115.60	\$152.39	\$198,807,000	\$607,800,000	2,180,000	\$141.93	\$278.81	\$309,400,000
3Q10	\$762,226,000	2,424,000	\$215.62	\$314.45	\$522,672,000	\$272,793,000	1,609,000	\$97.22	\$169.54	\$156,434,000	\$263,760,000	1,752,600	\$102.39	\$150.50	\$179,447,000	\$607,926,000	2,316,000	\$142.78	\$262.49	\$330,667,000
4Q10	\$859,146,000	2,386,000	\$228.30	\$360.08	\$544,726,000	\$340,046,000	1,691,000	\$99.79	\$201.09	\$168,747,000	\$313,146,000	1,708,800	\$109.00	\$183.25	\$186,263,000	\$686,997,000	2,237,000	\$152.39	\$307.11	\$340,887,000
1Q11	\$952,333,000	2,277,000	\$255.52	\$418.24	\$581,818,000	\$393,107,000	1,592,000	\$125.50	\$246.93	\$199,792,000	\$393,975,000	1,711,200	\$145.42	\$230.23	\$248,845,000	\$825,498,000	2,189,000	\$188.38	\$377.11	\$412,364,000
2Q11	\$1,116,230,000	2,330,000	\$293.97	\$479.07	\$684,951,000	\$422,185,000	1,646,000	\$177.18	\$256.49	\$291,639,000	\$417,371,000	1,786,900	\$202.09	\$233.57	\$361,123,000	\$904,340,000	2,247,000	\$258.18	\$402.47	\$580,125,000
3Q11	\$1,112,256,000	2,377,000	\$296.49	\$467.92	\$704,765,000	\$402,819,000	1,619,000	\$179.99	\$248.81	\$291,411,000	\$391,685,000	1,809,900	\$198.03	\$216.41	\$358,411,000	\$915,709,000	2,341,000	\$271.95	\$391.16	\$636,625,000
4Q11	\$1,161,325,000	2,474,000	\$279.65	\$469.41	\$691,849,000	\$414,032,000	1,619,000	\$167.11	\$255.73	\$270,550,000	\$408,307,000	1,806,700	\$158.93	\$226.00	\$287,142,000	\$935,477,000	2,295,000	\$267.56	\$407.62	\$614,050,000
1Q12	\$1,111,014,000	2,348,000	\$286.25	\$473.17	\$672,112,000	\$433,876,000	1,602,000	\$175.57	\$270.83	\$281,267,000	\$417,763,000	1,730,800	\$188.00	\$241.37	\$325,382,000	\$926,315,000	2,218,000	\$276.90	\$417.64	\$614,162,000
2Q12	\$1,118,903,000	2,368,000	\$309.24	\$472.51	\$732,291,000	\$402,214,000	1,640,000	\$183.88	\$245.25	\$301,571,000	\$396,496,000	1,799,300	\$202.96	\$220.36	\$365,193,000	\$881,391,000	2,258,000	\$303.26	\$390.34	\$684,750,000
3Q12	\$1,109,353,000	2,504,000	\$269.79	\$443.03	\$675,544,000	\$389,601,000	1,600,000	\$163.23	\$243.50	\$261,167,000	\$384,365,000	1,785,000	\$160.22	\$215.33	\$285,994,000	\$880,009,000	2,331,000	\$271.72	\$377.52	\$633,388,000
4Q12	\$1,194,974,000	2,441,000	\$303.73	\$489.54	\$741,404,000	\$412,737,000	1,567,000	\$183.57	\$263.39	\$287,652,000	\$401,071,000	1,792,100	\$168.17	\$223.80	\$301,383,000	\$920,246,000	2,241,000	\$299.61	\$410.64	\$671,436,000
1Q13	\$1,142,714,000	2,422,000	\$293.36	\$471.81	\$710,527,000	\$434,422,000	1,578,000	\$180.17	\$275.30	\$284,303,000	\$434,006,000	1,783,600	\$153.51	\$243.33	\$273,804,000	\$900,076,000	2,168,000	\$293.35	\$415.16	\$635,975,000
2Q13	\$1,097,217,000	2,456,000	\$296.36	\$446.75	\$727,869,000	\$388,886,000	1,656,000	\$181.83	\$234.83	\$301,114,000	\$397,449,000	1,838,200	\$166.73	\$216.22	\$306,491,000	\$862,372,000	2,246,000	\$296.01	\$383.96	\$664,830,000
3Q13	\$1,142,714,000	2,635,000	\$269.65	\$433.67	\$710,527,000	\$388,886,000	1,643,000	\$183.27	\$236.69	\$301,114,000	\$398,295,000	1,857,100	\$172.91	\$214.47	\$321,109,000	\$920,246,000	2,328,000	\$288.42	\$395.29	\$671,436,000
4Q13	\$1,179,280,000	2,580,000	\$290.47	\$457.09	\$749,400,000	\$398,898,000	1,662,000	\$175.51	\$240.01	\$291,704,000	\$408,315,000	1,862,000	\$189.33	\$219.29	\$352,529,000	\$904,802,000	2,280,000	\$290.37	\$396.84	\$662,036,000
1Q14	\$1,177,783,000	2,445,000	\$287.37	\$481.71	\$702,628,000	\$435,707,000	1,620,000	\$172.69	\$268.95	\$279,752,000	\$438,203,000	1,762,600	\$167.11	\$248.61	\$294,543,000	\$921,246,000	2,274,000	\$286.32	\$405.12	\$651,098,000
Percent Change			40.0%	24.4%				59.3%	25.3%				29.2%	30.2%				71.0%	9.0%	

Percent Change in UP's Fuel Expense Per Car versus its Fuel Surcharge Revenue Per Car (4Q2007 - 1Q2014)



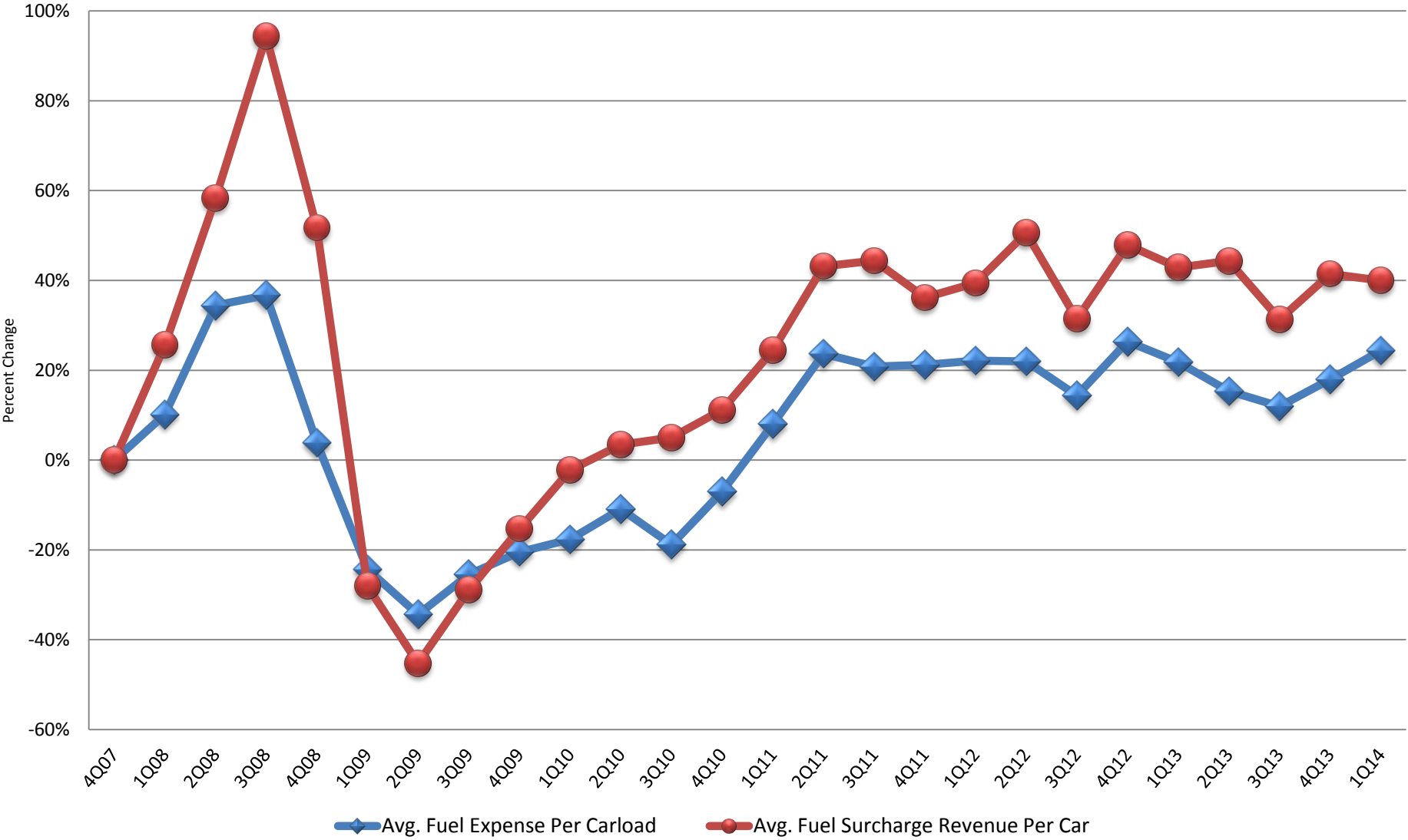
Source: Surcharge revenue and expense come froms submittals to the STB. Carloads are from the railroads' SEC filings.

Percent Change in CSXT's Fuel Expense Per Car versus its Fuel Surcharge Revenue Per Car (4Q2007 - 1Q2014)



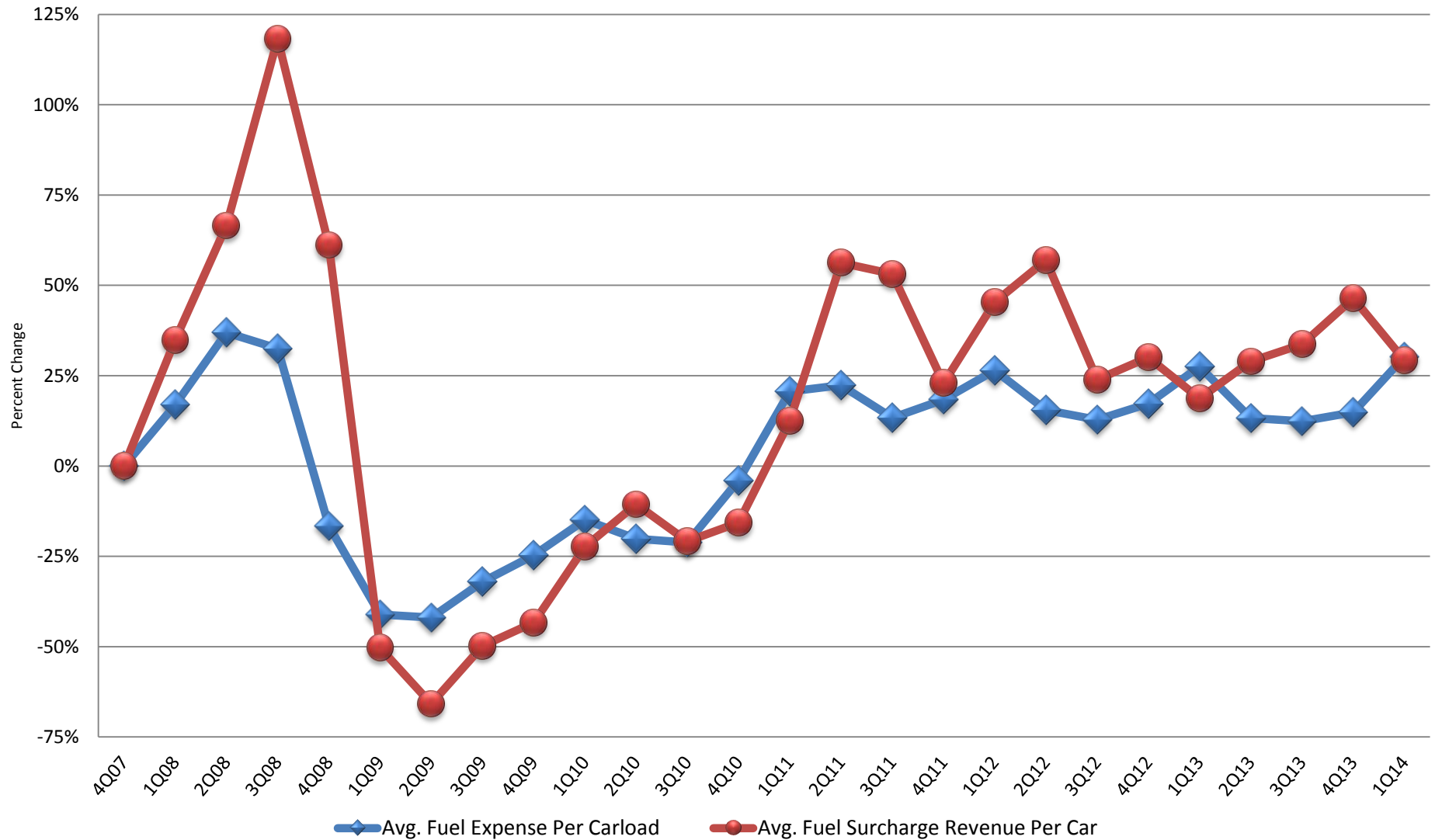
Source: Surcharge revenue and expense come froms submittals to the STB. Carloads are from the railroads' SEC filings.

**Percent Change in BNSF's Fuel Expense Per Car versus
its Fuel Surcharge Revenue Per Car**
(4Q2007 - 1Q2014)



Source: Surcharge revenue and expense come froms submittals to the STB. Carloads are from the railroads' SEC filings.

Percent Change in NS's Fuel Expense Per Car versus its Fuel Surcharge Revenue Per Car (4Q2007 - 1Q2014)



Source: Surcharge revenue and expense come from submittals to the STB. Carloads are from the railroads' SEC filings.

Fuel Surcharge Per Mile Resulting from the Number of Cents the HDF Index Needs to Change to Impact the Per Mile Surcharge

How UP Standard Mileage HDF Surcharge is Calculated		Increase in HDF	Potential HDF Change Needed for 1¢ Change in Surcharge/Mile	Fuel Surcharge/Mile Pre Additions	\$2.30 Strike Price Addition ⁽¹⁾	Fuel Surcharge Per Mile
	<u>Per Gallon Price</u>					
1Q2014 HDF Price	\$3.893	\$1.593 ÷	\$0.01	= \$1.593	+ \$0.05	= \$1.64
Base Strike Price	<u>\$2.30</u>	\$1.593 ÷	\$0.02	= \$0.797	+ \$0.05	= \$0.84
Increase in HDF	\$1.593	\$1.593 ÷	\$0.03	= \$0.531	+ \$0.05	= \$0.58
		\$1.593 ÷	\$0.04	= \$0.398	+ \$0.05	= \$0.44
		\$1.593 ÷	\$0.05	= \$0.319	+ \$0.05	= \$0.36
Each 5¢ increase in per mile	<u>÷ \$0.05</u>	\$1.593 ÷	\$0.06	= \$0.266	+ \$0.05	= \$0.31
HDF = 1¢ FSC per Mile	\$0.319 surcharge/mile	\$1.593 ÷	\$0.07	= \$0.228	+ \$0.05	= \$0.27
	\$0.05 Addition ⁽¹⁾	\$1.593 ÷	\$0.08	= \$0.199	+ \$0.05	= \$0.24
	<u>\$0.36 FSC/Mile</u>	\$1.593 ÷	\$0.09	= \$0.177	+ \$0.05	= \$0.22
		\$1.593 ÷	\$0.10	= \$0.159	+ \$0.05	= \$0.20
		\$1.593 ÷	\$0.11	= \$0.145	+ \$0.05	= \$0.19
		\$1.593 ÷	\$0.12	= \$0.133	+ \$0.05	= \$0.18
		\$1.593 ÷	\$0.13	= \$0.123	+ \$0.05	= \$0.17
		\$1.593 ÷	\$0.14	= \$0.114	+ \$0.05	= \$0.16
		\$1.593 ÷	\$0.15	= \$0.106	+ \$0.05	= \$0.15
		\$1.593 ÷	\$0.20	= \$0.080	+ \$0.05	= \$0.12

⁽¹⁾ \$2.30 Strike Price Addition - At \$2.30/gallon there is a \$0.05 addition.

Note - Surcharge per mile is rounded down to the full cent per mile value

Shaded results represent UP's standard HDF fuel surcharge.