



Presentation to the Surface Transportation Board

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As background: Graniterock is a 106-year old family-owned Construction Materials Supplier and General Engineering Contractor. In 1992, Graniterock was a recipient of the Malcolm Baldrige National Quality Award. Graniterock has been doing business with the railroad for its entire 106-years as the very foundation of the company has first centered around supplying ballast for the railroad's expansion. The company now supplies construction aggregates from Wilson Quarry near Watsonville, CA to rail-served locations from San Jose to San Francisco. These branch locations rely heavily on the UP for daily rail service as congestion on highways and in surrounding neighborhoods makes delivery of aggregate by truck impractical and undesired by local municipalities. In the peak construction season, rail shipments run between 90 and 115 railcars per day.

The nation is again experiencing unpredictable large increases in the cost of diesel fuel. The increased diesel expense is a fact of life that all American business must deal with. We believe that the use of a fair fuel surcharge program is an acceptable method for recovering the unpredictable fuel cost increases. A fair surcharge program only recovers the additional fuel expense and nothing more. The current UP Fuel Surcharge is based on the DOE On-Highway Diesel Fuel Price (US Average). We are unhappy with this program because it over-collects the actual fuel increase for our rail movements. Taking 2001 as a base year, our analysis of railroad data indicates that in 2004 and 2005 Graniterock overpaid the additional fuel expense by \$243,830. In other words, the fuel surcharge was 26% greater than required to recover the additional expense.

- Monterey County
- San Benito County
- San Mateo County
- Santa Clara County
- Santa Cruz County

- City and County of San Francisco

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We believe that not all customers are paying fuel surcharges. This practice is a form of discriminatory pricing. The Wall Street Journal reported on April 18, 2006, that the "Union Pacific says it spent \$1.38 billion more of fuel last year than it collected in fuel surcharge revenue, partly because some long term contracts lack surcharges." This is consistent with the fact that the surcharge exceeds the increased fuel cost but at the end of the year UP's financial disclosures indicates that the amount collected is not sufficient to cover fuel costs; therefore, clearly not all customers are paying the charge. It appears that, captive rail shippers like Graniterock are forced to pay an excessive surcharge to compensate for larger non-captive shippers that are unwilling to pay the additional surcharge. This is unfair and must be corrected.

Excessive fuel surcharges coupled with higher than justifiable rail rate increases over the past two years, are forcing freight back on to already congested highways and neighborhoods. This trend is not working in the favor of American business and the American Public. The railroads must treat all shippers fairly. This includes captive shippers. A fuel surcharge must only collect the increased fuel expense for that shipper and nothing more. Captive shippers should not be expected to pay the fuel surcharges that the railroad cannot collect from larger non-captive shippers. We seek the STB to intercede for all rail shippers to ensure that the railroads design their fuel surcharge programs to fairly recover only the additional fuel expense for their rail movements. Captive rail shippers should not be held hostage to pay the expenses incurred by larger non-captive shippers (who pay no surcharge).

Graniterock is charging its customers a surcharge for diesel fuel, asphalt used in our hot mix, and other products that use petroleum products. However, those surcharges are sufficient to cover only our increased costs and are not used to supply another source of profit. Not only do we believe this is fair, but in our competitive business no other surcharge method has been acceptable to customers.