



3110 Moon Station Road, Suite 120
Kennesaw, GA 30144
770.423.1165
fax 770.423.9857

April 26, 2006

Rail Fuel Surcharges

216375

Subject: Docket EP 611
STB Fuel Surcharge Hearing Ex. Parte No. 661

Kavanagh Logistics, Inc. has been managing rail transportation activities for various customers since 1982. Our rail experience includes the following market segments.

1. Machinery with emphasis on high, wide, and heavy components.
2. Petroleum products and chemicals.
3. Rail car fleet management / leasing.

Much of our experience is with companies entering into new markets (acquisition of facilities or new plant locations) or project cargoes which are not re-occurring, i.e. building a new power plant. Therefore, our background of knowledge covers a wide breadth of market conditions and rail providers.

Our customers' success is highly dependent on a healthy and vibrant rail industry. We need to have a relationship with our rail providers, which is based on true partnership values. We do not view the current fuel surcharge system as supporting these values.

The current fuel surcharge system is based on charging a customer a formulated percentage fee based on the line-haul revenue of the shipment. Historically, the railroads have priced / marketed their rail services based on commodities, not on operational use. We believe this system is flawed because the fuel charge is based on a commodities' market condition and not the amount of fuel that was used to complete the transportation transaction. If all similar car types and commodities were charged the same line-haul rate over the same route, then a percentage of revenue formula would be equitable. Unfortunately, that does not happen.

Example: 450,000 lbs new machinery and 450,000 lbs part for new machinery.

427 mile shipment (same route)

Car type: 12 axle flat car

Both cars moved on a manifest train.

New machinery \$29,340.00 line haul \$5,046.48 fuel surcharge.

Part for new machinery \$7,110.00 line-haul, \$1,222.92 fuel surcharge.

We see a clear disparity in the above example.

Another example, which supports our claim that a fuel surcharge that is based on a line-haul based percentage produces inequities, is shown below.

Length of Haul	Line-Haul Revenue	Fuel Surcharge	Surcharge per Mile
776 miles	\$52,307.00	\$8,997.00	\$11.59
842 miles	\$81,626.00	\$10,203.00	\$12.12
778 miles	\$34,430.00	\$4,304.00	\$5.53
50 miles	\$29,933.00	\$3,218.00	\$64.36

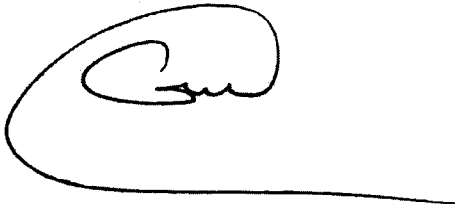
If a general fuel surcharge is a necessity, then our belief is that the rail industry should change their formula to an operational use format (distance and weight). Any other criteria that affects the costs of moving cargo should be borne in the line-haul rate agreed to by both parties.

In conclusion, we believe that the examples we have offered show a clear indication that a line-haul revenue based fuel surcharge is flawed. We feel that a properly structured fuel surcharge is beneficial to a healthy and vibrant rail industry, which is very important to the success of my customers and the USA. We also believe that a properly structured fuel surcharge should be assessed across the entire business environment, not just specific markets / commodities.

The cost of fuel impacts virtually all businesses. A fuel surcharge should be implemented to protect our rail industry against unexpected changes, not to reduce the operating expense to enhance profits.

I hereby affirm that these statements are true to the best of my knowledge and belief.

Yours truly,

A handwritten signature in black ink, appearing to read 'G. Kavanagh', with a long horizontal flourish extending to the right.

Glenn M. Kavanagh – President
Kavanagh Logistics, Inc.