

216377



CornProducts
INTERNATIONAL **Before the**
SURFACE TRANSPORTATION BOARD
Washington, D.C. 20423

RAIL FUEL SURCHARGES

)
)
)
)
)
STB Ex Parte No. 661

COMMENTS SUBMITTED BY
CORN PRODUCTS INTERNATIONAL, INC.

Thomas Waskiewicz
Corn Products International, Inc.
5 Westbrook Corporate Center
Westchester, IL 60154
(708) 551-2785

Dated: April 27, 2006

**Before the
SURFACE TRANSPORTATION BOARD
Washington, D.C. 20423**

STB EX PARTE 661

RAIL FUEL SURCHARGES

**COMMENTS SUBMITTED BY
CORN PRODUCTS INTERNATIONAL, INC.**

My name is Thomas Waskiewicz; I am Director of Rail Transportation for Corn Products International, Inc. (CPI). CPI is a global producer of refined corn and starch-based ingredients. CPI's rail transportation spend in 2005 totaled \$31.5 million.

Fuel surcharges assessed by the railroads have had a significant impact on CPI. Fuel surcharges paid to the rail carriers in 2005 totaled \$3.8 million. Due to market conditions, we are unable to fully recover fuel surcharges in pricing to our customers. While we have not lost business, we have been required to restructure our customer base to minimize costs.

The cost evidence that we will present, supports our position that the fuel surcharges assessed by the railroads are unreasonable and they do not relate to increased fuel costs. Instead, they are simply a rate increase. We commend the

Board for initiating this proceeding and we appreciate the opportunity to present our views.

Fuel surcharges, when appropriate and properly structured, are one way to recover unexpected changes in fuel costs. However, the current railroad fuel surcharge programs appear to over-recover changes in the cost of fuel. Further, the fuel surcharges applied by the railroads appear to be market based, not cost based as they contend. Railroads seem to be following the lead of the motor carriers who are directly impacted by increased fuel costs as the truckers are required to purchase fuel at the pump, even though railroads have a competitive cost advantage as rail transportation is three times more efficient than truck transportation.¹

Further, one of the potential pitfalls of fuel surcharge programs is they can reward carriers for poor service performance. If fuel surcharges are simply a pass-through of increased fuel costs, then railroads with inefficient operations (that consume more fuel) are allowed to recover those increased costs which are inflated due to inefficient operations. These programs do not offer financial incentives for carriers to control costs.

When preparing this statement, we contracted a study with HIGHROAD Consulting, Ltd., a consulting firm with expertise in rail costing and regulatory costing, to develop cost data to support our position. The consultants performed a fuel expense study using data developed by the Surface Transportation Board's URCS Phase II and Phase III costing programs. To cost the movements, they

¹ Dick Davidson, Chairman of the Board, and Jim Young, President and Chief Executive Officer, Union Pacific Railroad 2005 Annual Report, pg. 2.

researched and developed the unit-cost for each Class I railroad. Extracting data from the Phase II data tables, the consultants developed unit-costs for gross-ton-miles, locomotive-running-miles and any switching that would be involved for that particular movement (both yard and road). In addition, they used the General Overhead Ratio for Operations to account for other fuel expenses that would rightly be attributable to a particular movement.

The model used by the consultants to determine fuel expense for each movement is shown below:

TOTAL FUEL EXPENSE =

$$\text{FUEL EXPENSE}^{\text{ORIGINATING CARRIER}} + \text{FUEL EXPENSE}^{\text{TERMINATING CARRIER}}$$

Where Fuel Expense for each carrier is:

$$\text{FUEL EXPENSE}^i = \sum \{ [\text{GTM} * \text{UC}(\text{GTM})] + [\text{LRM} * \text{UC}(\text{LRM})] + [(\text{SEMR} * \text{UC}(\text{SEMR})) + (\text{SEMY} * \text{UC}(\text{SEMY}))] \} * \text{GOH}$$

i =	Railroad / Carrier
GTM =	Gross-Ton-Miles
UC =	Unit-Cost
LRM =	Locomotive Running Miles
SEMR =	Switch Engine Minutes Road
SEMY =	Switch Engine Minutes Yard
GOH =	General Overhead Ratio

Essentially, the consultants assumed that fuel expense is based on trailing weight, number of locomotives used in the movement, and the length of the movement. This makes intuitive sense, in that one would expect a longer heavier movement to use more fuel than a longer lighter movement. Fuel surcharges that do not account for such characteristics may not be accurately calculating fuel costs.

In the analysis of fuel costs, the consultants confirmed that even though CPI has special fuel surcharge agreements with some carriers, fuel surcharges paid by

CPI in 2005 in the lanes analyzed, exceeded the total fuel expense developed using URCS Phase II and Phase III costs.

Results of the cost analysis of CPI's representative lanes are summarized below:

Lane #1

Commodity: 01-132 **Car Type & Size:** Private 5150 cu. Ft. CH
No mileage compensation

Origin: Cozad, NE **Destination:** Stockton, CA

Route: UP

Shipment Weight: 8,550 tons **Shipment Size:** 75 cars

Avg. Fuel Surcharge Per Car Paid in 2005: \$287.00

Total Fuel Costs Per Car: \$228.98

Lane #2

Commodity: 20-461 **Car Type & Size:** Private 17,500 gal TC
No mileage compensation

Origin: Bedford Park, IL **Destination:** Vernon, CA

Route: IHB switch – UP Direct

Shipment Weight: 97.5 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$398.00

Total Fuel Costs Per Car: \$300.45

Lane #3

Commodity: 20-462 **Car Type & Size:** Private 5750 cf PD CH
No mileage compensation

Origin: Bedford Park, IL **Destination:** Mobile, AL

Route: CN

Shipment Weight: 91 tons **Shipment Size:** Single Car
Avg. Fuel Surcharge Per Car Paid in 2005: \$226.00
Total Fuel Costs Per Car: \$ 88.00

Lane #4

Commodity: 20-461 **Car Type & Size:** Private 17,500 gal TC
No mileage compensation
Origin: Bedford Park, IL **Destination:** Lodi, CA
Route: IHB switch – BNSF Direct

Shipment Weight: 97.5 tons **Shipment Size:** Single Car
Avg. Fuel Surcharge Per Car Paid in 2005: \$347.00
Total Fuel Costs Per Car to Chicago: \$303.21

Lane #5

Commodity: 20-461 **Car Type & Size:** Private 17,500 gal TC
No mileage compensation
Origin: Bedford Park, IL **Destination:** Leola, PA
Route: NS Direct

Shipment Weight: 97.5 tons **Shipment Size:** Single Car
Avg. Fuel Surcharge Per Car Paid in 2005: \$181.00
Total Fuel Costs Per Car: \$ 93.78

(The remainder of this page left blank intentionally)

Based on the information and cost evidence presented herein, we respectfully request that the Board:

- Intervene and establish a system that will reduce the surcharges to reflect actual increases in fuel costs.
- Establish a provision that recovery of increased fuel costs are to be limited for railroads with poor operating performance.
- Establish a process and order reparations for fuel surcharge overcharges within the statutory guidelines.

Respectfully submitted,



By: _____

Thomas Waskiewicz
Corn Products International, Inc.
5 Westbrook Corporate Center
Westchester, IL 60154
(708) 551-2785

Dated: April 27, 2006