



ORONITE

April 27, 2006

Surface Transportation Board
Attn: STB Ex Parte No. 661
1925 K Street, N.W.
Washington, DC 20423-0001

Re: Rail Fuel Surcharges
STB Ex Parte No. 661

Enclosed please find a copy of the Comments on Rail Fuel Surcharges submitted by Chevron Oronite which is being filed electronically today.

Sincerely,



Ed Monneyham
Transportation Specialist
Chevron Oronite
Subs. Chevron Corporation

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

RAIL FUEL SURCHARGES

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STB Ex Parte No. 661

**COMMENTS SUBMITTED BY

CHEVRON ORONITE
SUBSIDIARY CHEVRON CORPORATION**

Ed Mooneyham
Chevron Oronite
4800 Fournace Place
BAX 685-B
Bellaire, TX 77401-2325
(713) 432-3255

Dated: April 27, 2006

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

**STB EX PARTE 661
RAIL FUEL SURCHARGES**

**COMMENTS SUBMITTED BY
CHEVRON ORONITE**

My name is Ed Mooneyham, I am Transportation Specialist of Chevron Oronite. Chevron Oronite is a leading developer, manufacturer and marketer of performance additives for fuels and lubricating oils. Fuel surcharges assessed by the railroads have had a significant impact on Chevron Oronite. Fuel surcharges totaled 10 - 12% of our transportation spend in 2005. Further, our rail rates increased 15% in 2005; because the surcharges are based on a percentage of the rate, those increases had a compounding effect on surcharges paid.

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 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 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.

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

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 fuel surcharges paid by Darling in 2005 in the lanes analyzed, exceeded the fuel expense developed using URCS Phase II and Phase III costs.

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

Lane #1

Commodity: 29-117 **Car Type & Size:** Private T-6
Average mileage rate, \$0.67 per mile

Origin: Oak Point, LA **Destination:** Newell, WV

Route: UP - ESTL - NS

Shipment Weight: 86 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$988.00

Total Fuel Costs Per Car: \$187.09

Lane #2

Commodity: 29-177 **Car Type & Size:** Private T-6
Average mileage rate, \$0.67 per mile

Origin: Oak Point, LA **Destination:** Galena Park, TX

Route: UP

Shipment Weight: 85 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$299.00

Total Fuel Costs Per Car: \$ 59.38

Lane #3

Commodity: 29-117 **Car Type & Size:** Private T-6
No mileage compensation

Origin: Oak Point, LA **Destination:** Hot Springs, AR

Route: UP

Shipment Weight: 85 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$385.00

Total Fuel Costs Per Car: \$ 79.91

Lane #4**Commodity:** 29-117**Car Type & Size:** Private T-6
Avg. mileage compensation \$0.67/mile**Origin:** Metairie, LA**Destination:** Sarnia, ON**Route:** KCS - JACKN - CN**Shipment Weight:** 85 tons **Shipment Size:** Single Car**Avg. Fuel Surcharge Per Car Paid in 2005:** \$772.00**Total Fuel Costs Per Car to Chicago:** \$179.36

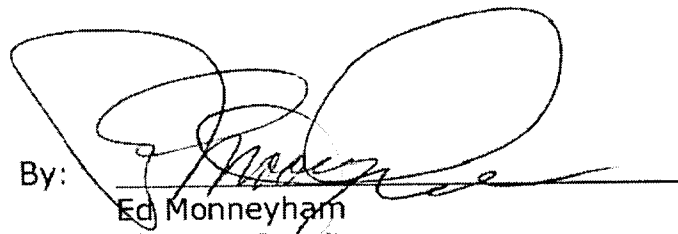
Lane #5**Commodity:** 20-143**Car Type & Size:** Private T-6
Avg. mileage compensation \$0.67/mile**Origin:** Metairie, LA**Destination:** Watson, CA**Route:** KCS - Dallas, TX - BNSF**Shipment Weight:** 85 tons **Shipment Size:** Single Car**Avg. Fuel Surcharge Per Car Paid in 2005:** \$1248.00**Total Fuel Costs Per Car:** \$ 288.35

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:

A large, stylized handwritten signature in black ink, appearing to read 'Ed Monneyham', is written over a horizontal line.

Ed Monneyham
Chevron Oronite
4800 Fournace Place
BAX 685-B
Bellaire, TX 77401-2325
(713) 432-3255

Dated: April 27, 2006