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HIGHROAD CONSULTING, LTD
Engineering, Design, Construction

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 on behalf of Diversified CPC International, Inc. which is being filed electronically today.

Sincerely,



Sandra J. Dearden
Consultant for
Diversified CPC International, Inc.

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

RAIL FUEL SURCHARGES

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STB Ex Parte No. 661

COMMENTS SUBMITTED BY
DIVERSIFIED CPC INTERNATIONAL, INC.

HIGHROAD Consulting, Ltd.
29 S. LaSalle Street, Suite 450
Chicago, IL 60603

Dated: April 27, 2006

Sandra J. Dearden
HIGHROAD Consulting, Ltd.
29 S. LaSalle Street, Suite 450
Chicago, IL 60603
(312) 201-0836

Consultant for Petitioner

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

STB EX PARTE 661

RAIL FUEL SURCHARGES

**COMMENTS SUBMITTED BY
DIVERSIFIED CPC INTERNATIONAL, INC.**

My name is Sandra Dearden, I am President of HIGHROAD Consulting, Ltd. (HIGHROAD), a transportation and logistics consulting firm headquartered in Chicago, IL. I am presenting this testimony on behalf of Diversified CPC International, Inc. (Diversified), a manufacturer of blowing agents and propellants for aerosols, headquartered in Channahon, IL. HIGHROAD has managed transportation for Diversified for more than six years.

Diversified has six manufacturing and distribution facilities in North America; all are rail served. Diversified's transportation spend in 2005 totaled \$6.17 million. Fuel surcharges assessed by the railroads have had a significant impact on Diversified's ability to remain competitive to its customers in the United States and South America. 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.

HIGHROAD'S 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, we 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 we used 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 our analysis of fuel costs, we found that fuel surcharges paid by Diversified in 2005 in the lanes analyzed, exceeded the fuel expense developed using URCS Phase II and Phase III costs.

Results of our cost analysis of Diversified's representative lanes are summarized below:

Lane #1

Commodity: 29-121 **Car Type & Size:** Private T389 263 cap.
No mileage compensation

Origin: Lorenzo, IL **Destination:** North Randall, OH

Route: BNSF - Chicago - NS

Shipment Weight: 73.1 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$379.72

Total Fuel Costs Per Car: \$ 50.56

Lane #2

Commodity: 29-121 **Car Type & Size:** Private T389 263 cap.
No mileage compensation

Origin: Lorenzo, IL **Destination:** Waxdale, WI

Route: BNSF - Chicago - CPRS

Shipment Weight: 74.4 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$162.08

Total Fuel Costs Per Car: \$ 24.20

Lane #3

Commodity: 29-121 **Car Type & Size:** Private T389 263 cap.
No mileage compensation

Origin: Lorenzo, IL **Destination:** Ajax, ON

Route: BNSF - Chicago - CN

Shipment Weight: 74.4 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$251.22

Total Fuel Costs Per Car: \$ 59.60

Lane #4

Commodity: 29-121 **Car Type & Size:** Private T108 263 cap.
No mileage compensation

Origin: Lorenzo, IL **Destination:** Covington, GA

Route: BNSF - Chicago - CSXT

Shipment Weight: 66.4 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$403.72

Total Fuel Costs Per Car: \$ 97.64

Lane #5

Commodity: 29-121 **Car Type & Size:** Private T389 263 cap.
No mileage compensation

Origin: Lorenzo, IL **Destination:** Danville, IL

Route: BNSF - Chicago - CSXT

Shipment Weight: 74.3 tons **Shipment Size:** Single Car

Avg. Fuel Surcharge Per Car Paid in 2005: \$187.83

Total Fuel Costs Per Car: \$ 28.89

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:



Sandra J. Dearden for:
Diversified CPC International, Inc.
24338 W. Durkee Road
Channahon, IL 60410
(312) 201-0836

HIGHROAD Consulting, Ltd.
29 S. LaSalle Street, Suite 450
Chicago, IL 60603

Consultant for Petitioner

Dated: April 27, 2006