



251 O'Connor Ridge Boulevard  
Suite 300  
Irving, TX 75038

216391

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 Darling International, Inc. which is being filed electronically today.

Sincerely,

A handwritten signature in black ink, appearing to read "Traci Johnson", with a long, sweeping horizontal line extending to the right.

Traci Johnson  
Transportation Manager  
Darling International, Inc.

972-717-0300  
800-800-4841  
Fax: 972-717-1588  
[www.darlingii.com](http://www.darlingii.com)

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

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**RAIL FUEL SURCHARGES**

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**STB Ex Parte No. 661**

**COMMENTS SUBMITTED BY**  
**DARLING INTERNATIONAL, INC.**

Traci Johnson  
Darling International, Inc.  
251 O'Connor Ridge Blvd.  
Irving, TX 75038  
(972) 717-5520

Dated: April 27, 2006

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

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**STB EX PARTE 661**

**RAIL FUEL SURCHARGES**

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**COMMENTS SUBMITTED BY  
DARLING INTERNATIONAL, INC.**

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My name is Traci Johnson. I am Transportation Manager of Darling International, Inc. (Darling). Darling is America's leading provider of rendering, recycling, and recovery solutions to the nation's food industry. We provide recycling and rendering services in which animal and food waste products are turned into useful commercial goods, including tallow, protein meals (Meat and Bone Meal), and yellow grease. Darling has 21 manufacturing and distribution facilities that are rail served. Darling's transportation spend in 2005 totaled \$3.9 million.

Fuel surcharges assessed by the railroads have had a significant impact on our ability to be market competitive, especially to customers in the southeastern United States. We have lost business in the southeast due to the fact the fuel surcharges assessed by Norfolk Southern and CSX Transportation are generally higher than those applied by the western carriers. Customers have called for price

quotes but once the fuel surcharge and weighing charges are added, we are not cost competitive.

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.<sup>1</sup>

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.

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

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.

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

TOTAL FUEL EXPENSE =

FUEL EXPENSE<sup>ORIGINATING CARRIER</sup> + FUEL EXPENSE<sup>TERMINATING CARRIER</sup>

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 Darling's representative lanes are summarized below:

**Lane #1**

|                                                  |                     |                             |                                               |
|--------------------------------------------------|---------------------|-----------------------------|-----------------------------------------------|
| <b>Commodity:</b>                                | 20-144              | <b>Car Type &amp; Size:</b> | Private 100-ton CH<br>No mileage compensation |
| <b>Origin:</b>                                   | Wahoo, NE           | <b>Destination:</b>         | Rockmart, GA                                  |
| <b>Route:</b>                                    | UP - Chicago - CSXT |                             |                                               |
| <b>Shipment Weight:</b>                          | 100 tons            | <b>Shipment Size:</b>       | 45 cars                                       |
| <b>Avg. Fuel Surcharge Per Car Paid in 2005:</b> | \$388.00            |                             |                                               |
| <b>Total Fuel Costs Per Car:</b>                 | \$222.75            |                             |                                               |

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**Lane #2**

|                                                  |                     |                             |                                               |
|--------------------------------------------------|---------------------|-----------------------------|-----------------------------------------------|
| <b>Commodity:</b>                                | 20-144              | <b>Car Type &amp; Size:</b> | Private 100-ton CH<br>No mileage compensation |
| <b>Origin:</b>                                   | Wahoo, NE           | <b>Destination:</b>         | Albertville, AL                               |
| <b>Route:</b>                                    | UP - Chicago - CSXT |                             |                                               |
| <b>Shipment Weight:</b>                          | 100 tons            | <b>Shipment Size:</b>       | 29 cars                                       |
| <b>Avg. Fuel Surcharge Per Car Paid in 2005:</b> | \$408.00            |                             |                                               |
| <b>Total Fuel Costs Per Car:</b>                 | \$168.97            |                             |                                               |

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**Lane #3****Commodity:** 20-144**Car Type & Size:** Private 100-ton CH  
No mileage compensation**Origin:** Blue Earth, MN**Destination:** Evansville, IN**Route:** UP - Chicago - CSXT**Shipment Weight:** 100 tons **Shipment Size:** 52 Cars**Avg. Fuel Surcharge Per Car Paid in 2005:** \$339.00**Total Fuel Costs Per Car:** \$104.48

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**Lane #4****Commodity:** 20-143**Car Type & Size:** Private T106 & T107  
Avg. mileage compensation \$0.70/mile**Origin:** Omaha, NE**Destination:** Chicago, IL Rule 11  
Collect beyond to Ivorydale, OH**Route:** UP - Chicago - CSXT**Shipment Weight:** 85-90 tons **Shipment Size:** 80 Cars**Avg. Fuel Surcharge Per Car Paid in 2005:** \$240.00**Total Fuel Costs Per Car to Chicago:** \$ 61.24

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**Lane #5****Commodity:** 20-143**Car Type & Size:** Private T106 & T107  
Avg. mileage compensation \$0.70/mile**Origin:** Omaha, NE**Destination:** Quincy, MA**Route:** UP - Chicago - CSXT**Shipment Weight:** 85-90 tons **Shipment Size:** 64 Cars**Avg. Fuel Surcharge Per Car Paid in 2005:** \$639.00**Total Fuel Costs Per Car:** \$209.22

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:   
Traci Johnson  
Darling International, Inc.  
251 O'Connor Ridge Boulevard  
Irving, TX 75038  
(972) 717-5520

Dated: April 27, 2006