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April 27, 2006

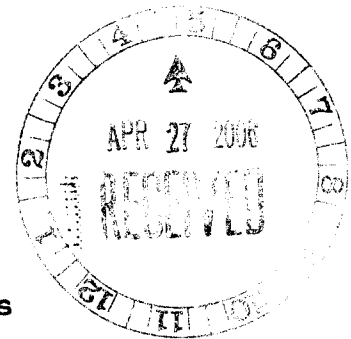
Via Hand Delivery

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K St. N.W.
Washington, D.C. 20423

ENTERED
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APR 27 2006

Part of
Public Record



RE: STB Ex Parte No. 661; Rail Fuel Surcharges

Dear Secretary Williams:

Please find enclosed the original and ten (10) copies of The National Industrial Transportation League's Written Testimony regarding Rail Fuel Surcharges along with a diskette containing a PDF and Word version for filing in the above referenced proceeding.

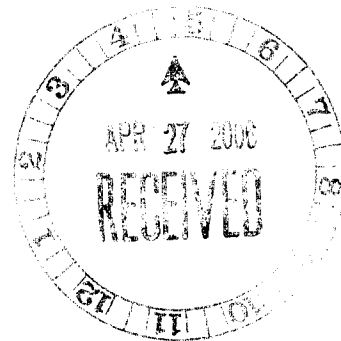
An extra copy of the Testimony is enclosed for stamping and returning to our offices.

Should you have any questions regarding the foregoing, please do not hesitate to contact the undersigned.

Sincerely,

Nicholas J. DiMichael

BEFORE THE
SURFACE TRANSPORTATION BOARD



Ex Parte No. 661
RAIL FUEL SURCHARGES

Written Testimony
submitted by
THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE

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ENTERED
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By Its Attorneys

APR 27 2006

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Dated: April 27, 2006

BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 661

RAIL FUEL SURCHARGES

Written Testimony

submitted by

THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE

In a Notice of Public Hearing issued by the Board on March 14, 2006 ("Hearing Notice"), the Board announced that it would hold a hearing to provide interested persons an opportunity to express their views on the subject of fuel surcharges collected by railroads. The Board noted that the cost of fuel is a significant component of the operating costs of providing rail service, and railroads can be reasonably expected to devise methods to collect increases in those costs from shippers. The Board also indicated that the rail shipper community has voiced concerns that recent fuel surcharges collected by railroads are designed to recover amounts over and above increased fuel costs. The Board stated that the proceeding will focus on "whether railroad fuel surcharges are being set in such a manner as to insure that they are used only to recover the increased costs of fuel for the particular movements to which the surcharge is applied." Hearing Notice, p. 2. In addition, the Board asked parties to comment on whether and how the Board's reporting requirements should be adjusted to provide rail customers with better information on a carrier's fuel costs and the revenues collected through fuel surcharges.

This Written Testimony is submitted by The National Industrial Transportation League ("League") in response to the Board's Hearing Notice. The League is an association of companies interested in transportation, and many of its members ship goods via rail. Beyond this general interest, however, the League, along with the National Grain and Feed Association ("NGFA") and other organizations, has analyzed rail fuel surcharge programs and has engaged in discussions with individual rail carriers regarding their fuel surcharge programs. Rail fuel surcharges significantly affect the cost that users of the rail system must pay for rail transportation, and the League has been vitally interested in this topic since fuel surcharges began to be collected by the carriers in 2002, and even well before.

The League strongly commends the Surface Transportation Board for conducting this proceeding, and the League believes that the Board can play a constructive role in improving rail fuel surcharge programs to make them more transparent and more equitable. The League appreciates the opportunity to comment current rail fuel surcharge programs, and on how the Board can be helpful to railroads and their customers in this important area.

I. THE LEAGUE'S POSITIONS

A. The League believes that railroad fuel surcharge programs, if properly structured, are an appropriate method for recovering extraordinary changes in a railroads' fuel costs. Such programs are particularly useful for the recovery of unexpected increases or decreases in fuel expenses; when the magnitude of changes in the cost of fuel is substantial; or when the changes are particularly frequent. However, in addition to rail fuel surcharges, railroads and their customers also frequently use other structured methods of recovering changes in fuel costs, such as the Rail Cost Adjustment Factor ("RCAF") established by the Board's predecessor agency the Interstate Commerce Commission, which contains a fuel component. In still other situations, a

railroad and its customer may simply agree to utilize short-term contracts that reflect the market costs and conditions at the time, including the cost of fuel. A properly-structured fuel recovery program should be flexible enough to accommodate a variety of such recovery mechanisms.

B. Fuel surcharges should be cost-based and reasonably related to actual changes in the fuel expense incurred by a particular rail carrier or carriers in transporting a shipper's goods from origin to destination. Among other things, this means that a fuel surcharge program should not be profit-enhancing device for the carrier. This cost-based principal also means that fuel surcharge programs based upon a percentage of the transportation rate should be particularly scrutinized. Differences in rail rates do not closely correlate to differences in the fuel expense incurred in transporting goods for shippers. Especially at current levels, rate-based percentage fuel surcharges produce significant inequities. There are alternatives to rate-based percentage fuel surcharge mechanisms, some of which have been adopted in the marketplace. All Class I carriers and the Board should pay close attention to this issue in developing improvements in railroad fuel surcharges.

C. The League believes that hedging can be a prudent management practice. Since hedging can produce either gains or losses, the effects of hedging should be ignored in any consideration of fuel surcharges.

D. Properly-structured fuel surcharge programs should recognize meaningful differences in the fuel expense incurred by a carrier or carriers for different types of rail services and different types of shippers. Fuel expenses differ significantly, for example, between unit train movements of heavy-loading commodities such as coal; intermodal movements, and carload shippers. Within these classes, the fuel expense of a carrier is often determined by key

drivers, such as differing distances in transporting goods. Properly-structured fuel surcharge programs should reflect these meaningful differences and the key drivers of fuel expense for different classes of movements.

E. Ease of administration of a fuel surcharge methodology, though certainly one consideration in developing a fuel surcharge method, should not be the sole criteria for determining a proper fuel surcharge mechanism. The factors noted above, and others, must be weighed and considered as well.

F. In the view of the League, it is not proper for a railroad to charge a portion of its customers an excess fuel surcharge in order to compensate for the fact that it does not charge another portion of its customers a formal "fuel surcharge." There are at least two reasons for this. First, as noted above, there are many mechanisms that shippers and carriers have agreed upon for compensating carriers for changes in the cost of fuel. Simply taking the change in the total cost of fuel from one period to the next, and dividing this cost by a class of "fuel surcharge shippers" does not reflect the actual recovery of fuel expenses through these various mechanisms. Second, and perhaps more importantly, a decision not impose a fuel surcharge on a particular movement is a commercial decision of the carrier. A mechanism labeled a "fuel surcharge" should not impose on some shippers the consequences of the carrier's other commercial decisions. The primary reason that a certain movements do not apply a fuel surcharge is that both the railroad and the shipper have entered into a contract that precludes the application of these fuel surcharges. It is important to point out that the railroad agreed to this provision as part of an overall commercial decision, and the railroad should not attempt to make up for this shortfall in its fuel surcharges on other shippers.

G. Carriers may argue that railroads should be permitted under the principals of differential pricing to recover an excess "fuel surcharge" from one shipper in order to compensate for the fact that they do not impose fuel surcharges on their entire customer base. But this, the League believes, would not be an appropriate or lawful use of differential pricing, either under statutory principals or under the guidelines established by the agency itself. For example, the Board has made clear in its decision in *Coal Rate Guidelines* that differential pricing is to be used to compensate a carrier for unattributable joint and common costs. *Coal Rate Guidelines - Nationwide*, 1 I.C.C.2d 520, 526 (1985). But use of differential pricing in a fuel surcharge methodology would turn the Board's own standards for proper differential pricing on their head, since it would require a shipper to cross-subsidize a directly attributable cost – fuel. Board precedent clearly states that fuel is a directly variable cost that should be born by the traffic that incurs that cost. See, *Rate Guidelines Non-Coal Proceedings*, 1 I.C.C. 2d 1004, 1027-1028, note 67 (1996); *Cost Standards for Railroad Rates*, 362 I.C.C. 800, 804, note 9 (1980).

H. The STB clearly has the authority, under its "unreasonable practice" jurisdiction, to oversee the fuel surcharge programs of the carriers. Indeed, as discussed further below, the Interstate Commerce Commission, the STB's predecessor agency, scrutinized fuel surcharge programs under similar authority.

I. The STB clearly has the authority to require more detailed information from carriers. As discussed further below, the League, in cooperation with other groups, has been able to develop certain analyses related to the fuel expenses of a carrier on the basis of public information. Yet, this information does not often correlate precisely to information that can be derived from the fuel surcharge programs of individual carriers, and assumptions have to be

made. The Board must encourage and if necessary require information from carriers in order to make the fuel surcharge process more transparent and to provide information by which the public can analyze carriers' fuel expenses for various types of traffic.

J. Carriers should undertake regular reviews of their fuel surcharge program to determine whether those programs are meeting the above goals. Fuel surcharge mechanisms that may be argued to provide "rough justice" when fuel prices are relatively low may result in significant distortions and inequities as fuel prices increase. Indeed, some of the data discussed in Section V of these Comments show that this is precisely what has happened in a number of instances. If carriers fail to undertake such a review and if distortions or inequities do occur, the Board should use its regulatory authority as necessary to insure that fuel surcharge programs are fair to both the carriers and to users of the rail system.

K. The agency should order all Class I carriers to immediately undertake a review of their individual fuel surcharge programs and submit a report to the Board within 90 days, indicating the results of that review and the changes that each carrier is making in order to comply with the principles set forth in these Comments.

II. BACKGROUND TO THE RAIL FUEL SURCHARGE ISSUE

Each Class I railroad uses an index to trigger the application of fuel surcharges and thereafter to adjust them periodically. The two basic indexes used are West Texas Intermediate Crude Oil (CSXT and NS) and the On-Highway Diesel Fuel price (UP and BNSF). Although fuel comprises only a part of a railroad's operating costs, until very recently, each of the railroads applied its surcharge as a percentage of the entire freight rate for any given movement subject to the surcharge, thus assessing a fuel surcharge against all operating expenses, overhead, and

profit. BNSF now applies its fuel surcharge on a miles-based system for certain categories of its business. A brief summary of various fuel surcharge programs follow, focusing on the fuel surcharge applied to carload movements.

Union Pacific

The UP's carload fuel surcharge program began in the first quarter of 2003. The program initially based UP's surcharge on the price of West Texas Intermediate Crude Oil (WTI). Under this program, a fuel surcharge was triggered when the price of WTI exceeded \$28 per barrel for thirty (30) consecutive days. At this point, a 2% surcharge was applied, with an additional 2% charged with each \$5 incremental increase in the price of WTI.

Beginning in June, 2003, the UP changed its fuel surcharge, basing it on the Department of Energy (DOE) On-Highway Diesel Fuel Price (US Average) instead of WTI. Under this new program, when the average monthly price of Retail On-Highway Diesel Fuel equals or exceeds \$1.35 per gallon, a surcharge beginning at 1.5% is applied. For every five cent increase above \$1.35 per gallon, the surcharge is increased by 0.5%.

BNSF Railway

BNSF has two distinct fuel surcharge programs, one a rate-based surcharge applied to the freight rate, and the other a mileage-based surcharge. Under the rate-based fuel surcharge program, a surcharge of 0.5% was triggered when the monthly average of the Department of Energy's Highway Diesel Fuel Price (U.S. Average) equals or exceeds \$1.25 per gallon. For every subsequent \$0.05 increase above \$1.25, an additional 0.5% incremental is added. Under the mileage-based surcharge program, a \$0.01 fuel surcharge of is applied for each mile of movement when the price of Highway Diesel Fuel equals or exceeds \$1.25. For every subsequent \$0.05 increase above \$1.25, an additional \$0.01 per mile is added. Mileage is determined for freight movements using the Rand-McNally Household Goods Carriers Mileage Guide in MileMaker, while mileage for a unit train is based on actual rail mileage.

CSXT

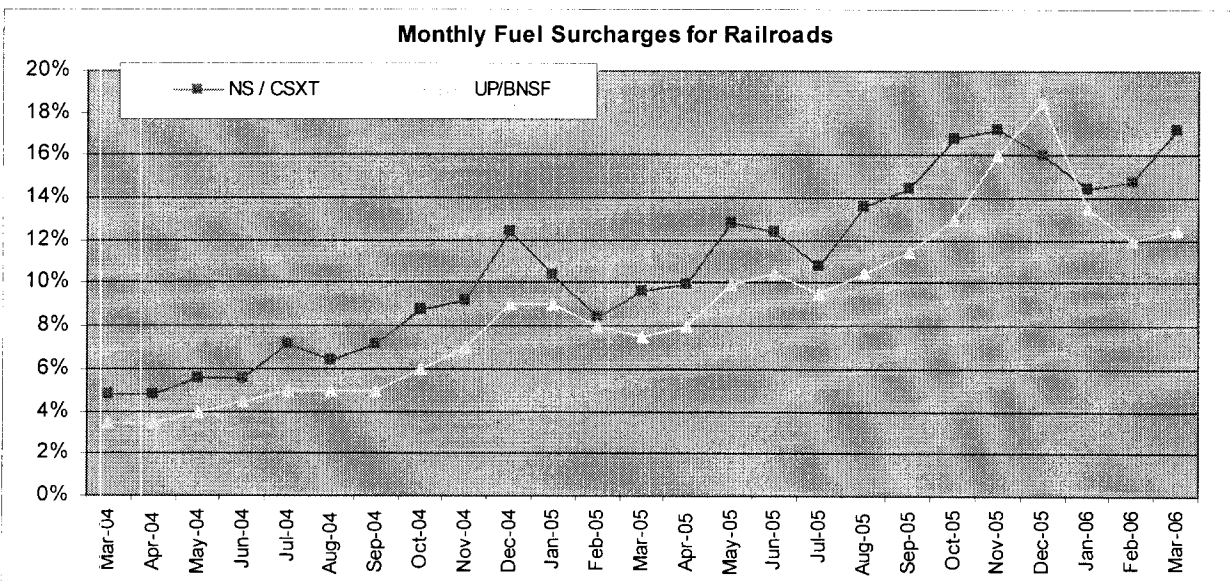
The CSXT fuel surcharge program began in the fourth quarter of 2002. The program is based on the price of WTI. Initially CSXT charged a fuel surcharge when the price of WTI exceeded \$28 per barrel for thirty (30) consecutive days, with a 2% surcharge applied when WTI exceeded \$28, and an additional 2% charged with each \$5 incremental increase in the price of WTI. In 2003, however, CSXT changed the trigger point from \$28 per barrel to \$23 per barrel. Under this new program, a 0.4% surcharge is initiated

when WTI exceeds \$23 per barrel, and an additional 0.4% is charged for every \$1 over \$23.

Norfolk Southern

NS first implemented a modern fuel surcharge program in the second quarter of 2000, although the program had a zero percent surcharge from October of 2001 until October of 2002. The program is based on the price of WTI. Initially NS charged a fuel surcharge when the price of WTI exceeded \$28 per barrel for thirty (30) consecutive days, with a 2% surcharge applied when WTI exceeded \$28, and an additional 2% charged with each \$5 incremental increase in the price of WTI. Beginning in March of 2003, however, NS changed the trigger point from \$28 per barrel to \$23 per barrel. Under this new program, a 0.4% surcharge is initiated when WTI exceeds \$23 per barrel, and an additional 0.4% is charged for every \$1 over \$23.

As noted above, the BNSF and UP are using DOE's Highway Diesel Fuel Price, whereas NS and CSXT are utilizing the West Texas Intermediate fuel indices. For comparison, the monthly level of the fuel surcharge percents using each of these two methodologies is graphically set forth below for the period of March 2004 through March 2006.



III. STUDY OF RAIL FUEL SURCHARGES

In 2004, the League, along with the National Grain and Feed Association ("NGFA") and other groups, commissioned a study of railroad fuel surcharge practices. The study was

conducted by Escalation Consultants, Inc., a respected rail economic consulting firm, to examine how various fuel surcharge formulas relate to the costs and revenues of the principal Class I rail carriers. Specifically, the Study was conducted to perform a detailed assessment of railroads' fuel surcharge practices to determine whether rail carriers' fuel surcharges were accurately reimbursing railroads for their increased costs of fuel.

The Study, which is attached to these Comments as Exhibit A, concluded that there were significant differences between carriers in their recovery of increases in their cost of fuel, and that some carriers were able to control their fuel cost increases substantially better than others. The Study also concluded that if the then-current regime of fuel surcharges is applied to an average individual movement, rail customers required to pay a fuel surcharge were typically paying much more than the railroads are incurring in additional extraordinary fuel expenses for that movement. Finally, the Study concluded that, because carriers' fuel surcharges were computed as a percentage of the line-haul rate, commodities with higher rates pay more in fuel surcharges than commodities being charged lower rates, even if the railroad's cost of fuel for transporting the two commodities is the same.

The time period for the Study was the fourth quarter of 2001 through the first quarter of 2004. The fourth quarter of 2001 was chosen as the beginning point because at that time crude oil prices were approximately \$20 per barrel and on-highway diesel prices were about \$1.25 per gallon, or just below the levels at which most fuel surcharge formulas were triggered. Thus, that time period gave a useful "base" for determining increases or decreases in the fuel expense of rail carriers, at a point when such expense was rolled in to the rate without any surcharge. Fuel surcharge assessments for most carriers were triggered in the third and fourth quarter of 2002, and have remained in effect to the present day.

It is most important to note that the Study predicted, at page 9, that the over-recovery of fuel surcharges would likely be much larger for railroads in the second and third quarters of 2004, since the price of fuel increased substantially since March 2004, the last month of the study. The Study, which was issued in December 2004, noted that fuel surcharge levels had increased substantially even between March 2004 and July 2004, rising from less than 5% in March 2004 to nearly 8% in July 2004. They are, of course, substantially higher now.

In addition to the Study itself, the League and NGFA also provided a white paper summarizing the results of the Study and setting forth other comments of the associations, and also issued a suggestion for a fuel surcharge methodology that would recognize differences in miles traveled. These documents are provided for the use of the Board at Exhibits B and C to these Comments.

IV. LEAGUE DISCUSSIONS WITH RAIL CARRIERS

In the latter part of 2004 and the early part of 2005, representatives from the League and NGFA met with the former Chairman Nober and members of the Board staff to outline their concerns with the current fuel surcharge methodologies. In the course of those discussions, it was agreed that the most appropriate initial approach to dealing with these concerns was a private sector effort to meet with each railroad to express concerns with the current fuel surcharge methodology and to discuss suggestions for a different fuel methodology. Individual meetings with each of the major carriers were scheduled, to present them the results of the Study, to discuss the results of the Study with each of them, and to encourage them to undertake a review of their fuel surcharge methodologies. After these discussions were held, the League in September 2005 briefed the Board on the results of these discussions.

As the Board knows, in 2005, BNSF did commendably undertake a review of its fuel surcharge methodology, and in early 2006 the BNSF implemented, after substantial discussions with its customers, a mileage-based fuel surcharge program for various categories of traffic, including grain and coal. In April 2005 CN also reviewed and made changes in its fuel surcharge methodology, resulting in a significant reduction in the fuel surcharge percent. Later, CP also reduced its fuel surcharge percent. The League commends each of these carriers for their willingness to examine their fuel surcharges and the positive steps they have taken. On the other hand, the League is disappointed that the other carriers have not seen fit to make appropriate changes in their fuel surcharge methodology. No clear reason was given to the League for the lack of interest in making a change.

V. MANY CURRENT RAIL FUEL SURCHARGE PROGRAMS SUBSTANTIALLY OVER-RECOVER CHANGES IN THE FUEL EXPENSE EXPERIENCED BY RAIL CARRIERS IN TRANSPORTING GOODS FOR SHIPPERS

In Section IV above, the results of a 2004 Study commissioned by the League and other groups was generally described. That Study concluded with data from first quarter of 2004. For these Comments, the League has consulted publicly available data and has extended some of the calculations in the Study to cover a period from the fourth quarter of 2001 (the base period in the Study) to the fourth quarter of 2005, the most recent quarterly period for which there is readily available public data. This data shows that the conclusions in the Study are still valid, and in fact the key trend identified in the Study – a continuing or even increasing over-recovery of the change in the fuel expense (especially by the Eastern carriers) compared to the increase in the revenue to the carriers represented by the fuel surcharge – is even more pronounced today than it was at the time of the Study.

The numbers developed in Table 3 of the Study, which showed the percent change in fuel expense per car versus the percent change in the fuel surcharge revenue per car from the fourth quarter of 2001 to the first quarter of 2004, are reproduced immediately below:

Table 3 From Study (Page 7)
Percent Increase in Fuel Expense Per Car Vs.
Percent Increase in Fuel Surcharge Revenue Per Car
(4th Quarter 2001 to 1st Quarter 2004)

	Increase in Fuel Expense Per Car	Increase in Fuel Surcharge Revenue Per Car
NS	5.4%	47.5%
CSXT	28.0%	53.0%
BNSF	11.9%	27.8%
UP	30.7%	25.7%
CN	12.5%	49.1%

Note that the percent change in fuel surcharge revenue and expenses is calculated from the base fuel cost in the fourth quarter of 2001

This table shows that for four of the five carriers studied, the change in the fuel expense per car was lower – and for the Eastern carriers substantially lower – than the change in the fuel surcharge revenue per car.¹

Extension of the data for four major Class I carriers operating primarily in the United States² to the 4th quarter of 2005³ is shown in Table A below.

¹ The change in fuel expense per car is the fuel expense per car in 1Q04 minus the fuel expense per car in 1Q01, divided by the fuel expense per car in 4Q01. The change in fuel surcharge revenue per car is the fuel surcharge for 1Q04 times the average adjusted revenue per car in 1Q04, divided by the total fuel expenditure per car in 4Q01.

² The Canadian National was included in the 2004 Study, but was not included in the extension of the data in these Comments, since over time it became increasingly difficult to account for currency exchange factors.

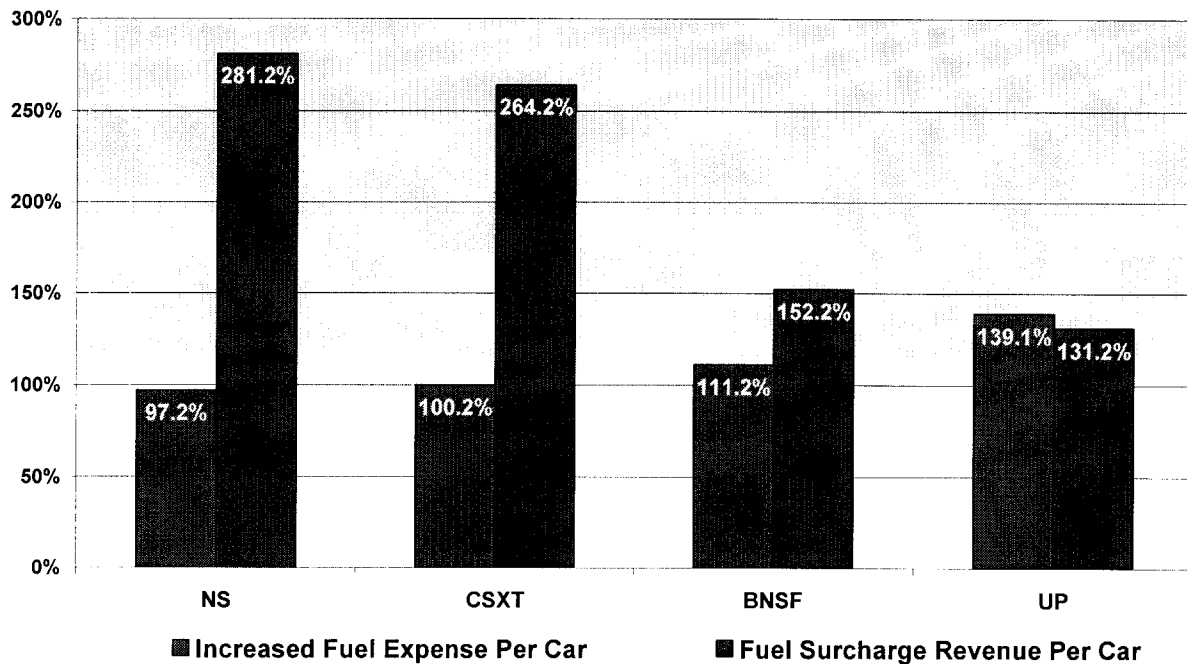
³ The change in the fuel expense per car and the change in the fuel surcharge revenue per car from 1Q01 to 4Q05 were calculated in the same manner as in the Study, using the same sources of data extended to the more current time period.

Table A
Percent Increase in Fuel Expense Per Car Vs.
Percent Increase in Fuel Surcharge Revenue Per Car
(4th Quarter 2001 to 4th Quarter 2005)

	Increase in Fuel Expense Per Car	Increase in Fuel Surcharge Revenue Per Car
NS	97.2%	281.2%
CSXT	100.2%	264.2%
BNSF	111.2%	152.2%
UP	139.1%	131.2%

The above data provides a “snapshot” comparison between the percent change in fuel expenses per car and the fuel surcharge revenue per car from the fourth quarter of 2001 to the fourth quarter of 2005. The data shows that there continues to be a substantial divergence between increased fuel expense per car and fuel surcharge revenue per car. Indeed, on a dollar basis, this over-recovery has increased, as the fuel surcharge programs of all of the carriers have moved to higher and higher levels. The data in Table A can be portrayed in graphic form, showing the difference between the percentage increase in each carrier's fuel expense per car versus the percentage increase in each carrier’s fuel surcharge revenue per car:

Graph A
Increased Fuel Cost per Car vs Fuel Surcharge Revenue per Car
4th Qtr '01 vs 4th Qtr '05



The above table and graph comparing each carrier's fuel expense per car and fuel surcharge revenue per car between 4Q01 and 4Q05, and the underlying data, show that there are disturbing results and trends for all of the carriers, but also that there are significant differences between eastern and western carriers.

Review of the above graph shows that UP's fuel surcharge per car has kept pace with the change in UP's fuel expense per car, as was true in the Study's earlier comparison. It should be noted that UP has experienced by far the largest increase in its per-car fuel expense, which the Study notes may be attributed to UP's operational challenges over the past several years. BNSF, on the other hand, shows a significant over-recovery. Over the 4Q01 through 4Q05 time period, BNSF's per car fuel expense increased about 111%, while BNSF's fuel surcharge revenue per

car increased by slightly over 150%, or over one-third more. A review of the underlying data shows that the dollar value of the BNSF's over-recovery in the fourth quarter of 2005 was larger than it was in the first quarter of 2004 (see tables attached to these Comments as Appendix D). For example, in 1Q04, BNSF was over-recovering \$15.42 per car. As of 1Q05, BNSF was over-recovering nearly \$46.00 per car.

A review of the underlying data also reveals a troubling trend with respect to UP and BNSF. BNSF's and UP's fuel surcharge for carload shipments more than doubled in the last four calendar quarters in 2005 (7.3% in the 4Q04 to 15.8% in 4Q05), with a jump of 50% in the carriers' surcharge in the final calendar quarter of 2005 alone (from 10.5% in 3Q05 to 15.8% in 4Q05), a trend that presages a more substantial over-recovery in the future as these increases work their way into the carrier's revenue.

The results, however, are much more disturbing for the Eastern carriers. Both NS and CSX continued to show massive over-recoveries of the actual change in their fuel expense per car, with their fuel surcharges increasing two and a half to three times the change in their fuel expense per car. The dollar values for the Eastern carriers calculated from the tables attached to these Comments shows that the Eastern carriers are deriving very substantial profits per car from their fuel surcharge mechanisms. And, while the recent jump in the Eastern carriers fuel surcharge from their already very high level has not been as dramatic for the Eastern carriers as for the Western railroads, it is still very substantial, especially considering the very high levels of over-recovery that were already being experienced. NS and CSX's fuel surcharge both increased nearly 30% in the single calendar quarter from 3Q05 to 4Q05, again likely presaging an even greater over-recovery in 2006.

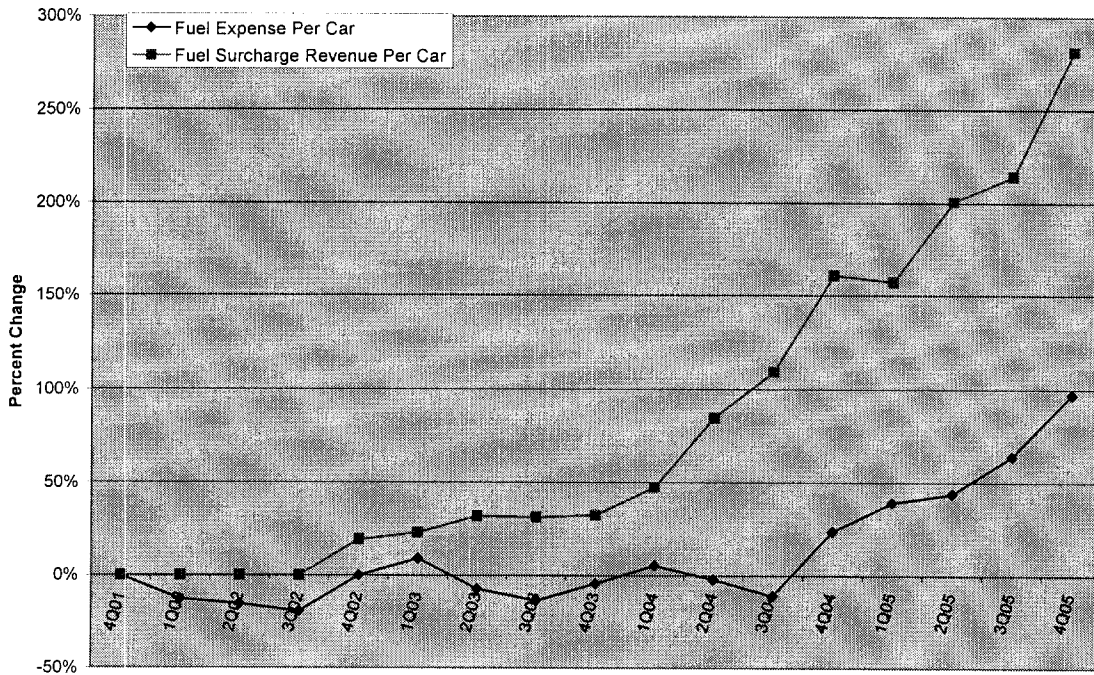
It should be noted that the figures above showing the percentage increase does not tell the entire story of the over-recovery. The dollar values of the over-recovery per car are clearly growing as the fuel surcharges have moved to higher and higher levels. For example, in 1Q04, NS' over-recovery per car was about \$24 per car, whereas now it has risen to over \$100 per car. See Table attached to these Comments. Also, the carriers have extended their fuel surcharge programs to cover more and more traffic. The total dollar value of the over-recovery to each carrier is likely significantly greater in the last quarter of 2005 than it was in the first quarter of 2004. Indeed, during the various carrier meetings mentioned earlier, all of the carriers made clear that their intention was to apply fuel surcharges to as many of movements as possible, and from reports, the League has no doubt that this is what is occurring. Moreover, with the price of oil rising in the past few days to a Nymex record of over \$70.00 per barrel, the level of the surcharge produced by the upward bias in the railroads' fuel surcharge programs is likely to accelerate even further in the future.⁴

The "snapshot" comparison in Table A and Graph A above can be traced through time. The following graphs show the results of the same analysis for the Norfolk Southern, CSXT, BNSF and UP, for each calendar quarter from the fourth quarter of 2001 through the fourth quarter of 2005:⁵

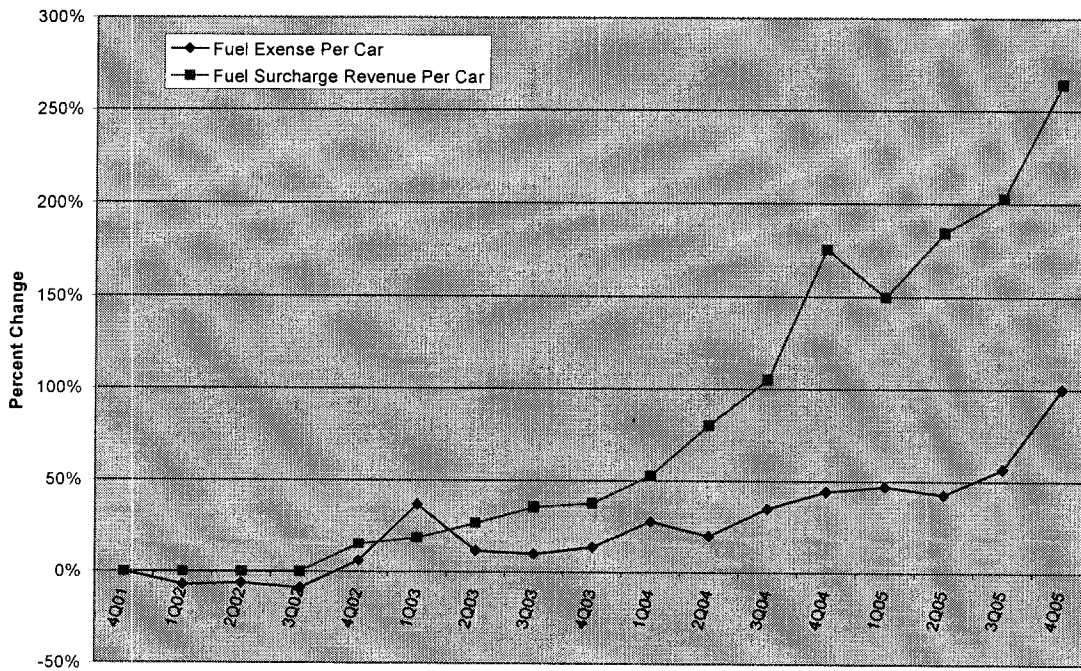
⁴ There is every indication that the pressures on fuel prices are not likely to abate soon. The requirement, for example, for the use of ultra-low sulfur fuel will stress the system even more.

⁵ For a detailed summary of the data represented in these graphs, see Exhibit D.

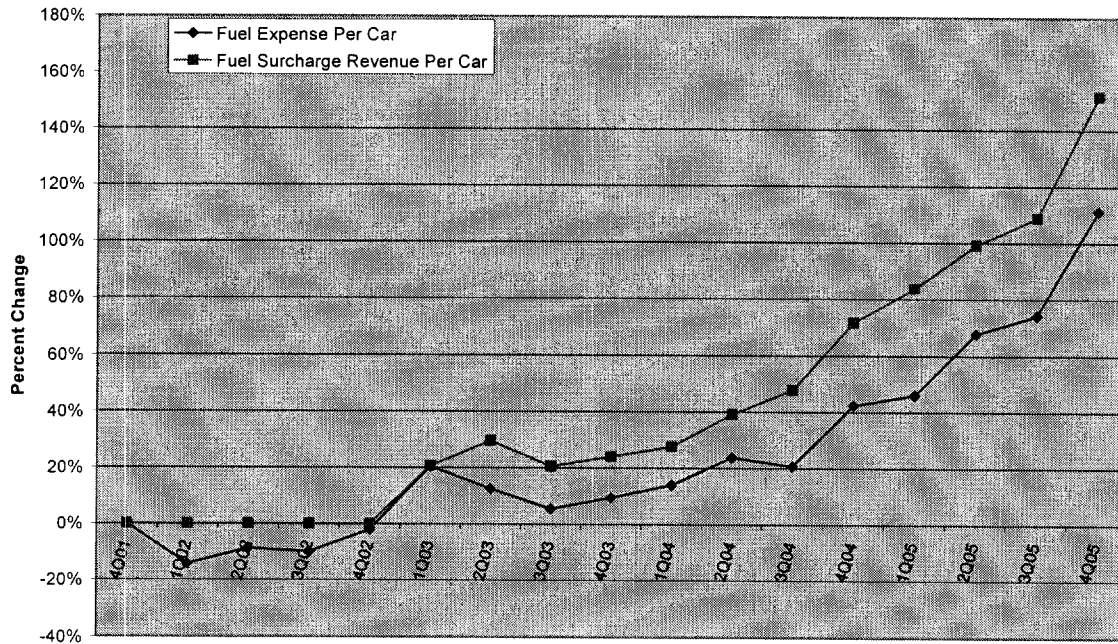
Norfolk Southern Railroad
Change in Fuel Expense Per Car vs. Fuel Surcharge Revenue Per Car
4th Quarter 2001 to 4th Quarter 2005



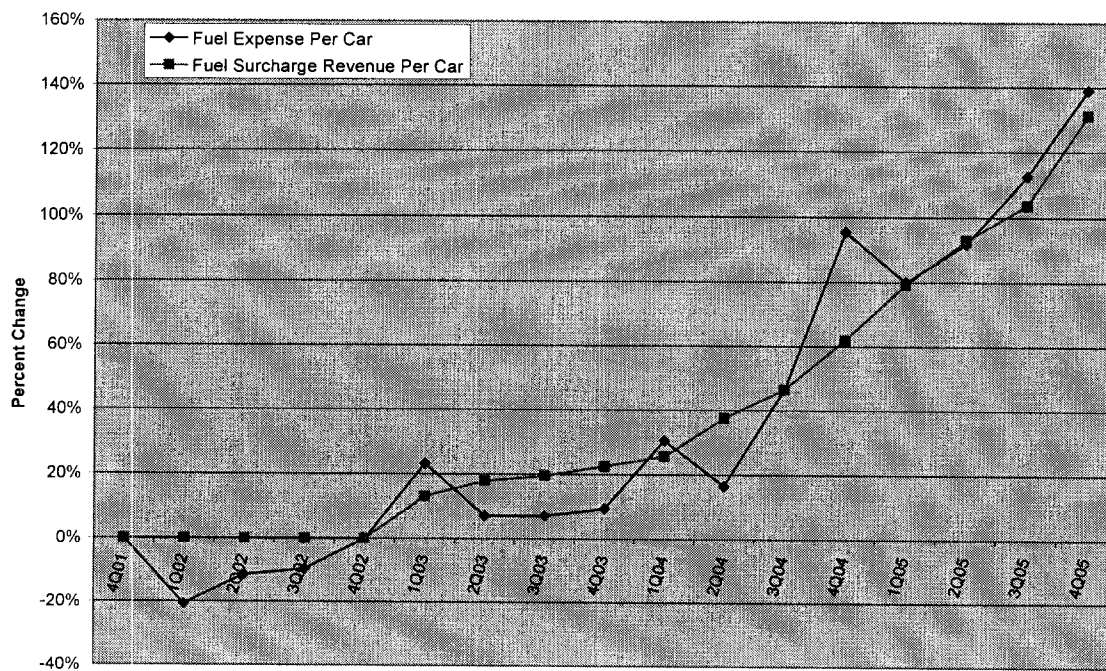
CSX Transportation
Change in Fuel Expense Per Car vs. Fuel Surcharge Revenue Per Car
4th Quarter 2001 to 4th Quarter 2005



BNSF Railroad
Change in Fuel Expense Per Car vs. Fuel Surcharge Revenue Per Car
4th Quarter 2001 to 4th Quarter 2005



Union Pacific Railroad
Change in Fuel Expense Per Car vs. Fuel Surcharge Revenue Per Car
4th Quarter 2001 to 4th Quarter 2005



The above graphs comparing each carrier's increased fuel expense per car for each quarter from 4Q01 to 4Q05 to each carrier's carload fuel surcharge revenue per car shows that, especially for the Eastern carriers, there has been an increasing spread between per car expense and surcharge revenue as their fuel surcharge programs have moved to higher and higher levels. In particular, the Eastern carriers' "spread" between fuel expense per car and fuel surcharge revenue per car began to increase dramatically after 1Q03, when the Eastern carriers reduced the WTI "trigger point" for fuel surcharge increases from \$28 per barrel to \$23 per barrel.

This analysis cannot close without discussing the effects of percentage-based fuel surcharge programs applied to the rate, which have been adopted by all carriers except BNSF for some of its traffic. There are substantial differences in the rates on different commodities moving under similar circumstances (e.g., two hopper cars containing two commodities weighing approximately the same and transported on the same train) transported from the same origin to the same destination. The differences in rates are a result of differential pricing. With respect to the carrier's fuel expense for transporting these commodities, the expense is precisely the same. Yet, a fuel surcharge imposed as a percentage of the rate produces a "cost recovery" that is significantly different. This is illustrated below for an eastern and a western carrier:

**Various Commodities Shipped from Eugene to Chicago Assuming 150,000 lbs. Lading
Weight Via BNSF**

BNSF Rate Source	Product	50' Boxcar Rate	4/06 FSC %	FSC \$
BNSFQ 80021	Grass Seed	\$3,751	12.5	\$469
BNSFQ 110966	Particleboard	\$3,879	12.5	\$485
BNSFQ 110965	Plywood	\$3,960	12.5	\$495
BNQ 105355	Lumber	\$4,051	12.5	\$506
BNSFQ 112150	Pulp	\$5,225	12.5	\$653
BNSFQ 111262	Paper	\$7,035	12.5	\$879

**Tank Car Movements of Caustic Soda and Chlorine Shipped from Niagara Falls, NY to
Charlotte, NC Via CSX**

Rate Document	Commodity	Rate Per Car	Weight	4/06FS %	FSC \$
CSXT28122	Caustic Soda	\$3,765	198,000	15.6	\$587.34
CSXT28128	Chlorine	\$5,866	180,000	15.6	\$915.20

The same result occurs with the same commodity transported in private cars versus railroad-owned cars.

**Lumber shipment from Eugene, OR to Chicago, IL via UP 73' Center-beam Flat car –
railroad owned car vs. non-railroad owned car**

Rate Document	Product	73' High Cap CB Rate	April FSC %	FSC \$
UP Circular 24 System Car	Lumber	\$5,049	12.5	\$631
UP Circular 24 Non-System Car	Lumber	\$5,453	12.5	\$682

Plainly, however, the fuel cost for transporting a private car containing “commodity x” between two points is exactly the same as the fuel cost for transporting the same commodity in a railroad-owned car.

Finally, the eastern and western carriers' use of different indexes to calculate their fuel surcharge percents produce apparent anomalies and inequities. As noted in Section II above, the BNSF and UP use the DOE retail on-highway diesel fuel price for calculating their carload fuel surcharge percent, while the NS and CSX use the WTI crude oil price for calculating their fuel surcharge percent for carload traffic. But these calculations produce substantially different numbers for carload traffic. For example, in April 2006, the BNSF and UP carload fuel surcharge is 12.5 percent, while the CSX and NS fuel surcharge for carload traffic is 15.6 percent, or 25% higher. While it can be expected that different carriers will, because of their market purchases, cost structure, terrain and operating conditions, and other factors, have

different fuel costs for the same type of traffic, it seems unlikely that the eastern and western rail carriers' fuel costs for carload traffic differ by twenty-five percent. At the very least, differences of this magnitude should be supported and justified.

VI. THE BOARD CAN REGULATE RAILROAD FUEL SURCHARGE PROGRAMS UNDER ITS UNREASONABLE PRACTICE JURISDICTION

Dramatic increases in fuel prices are not new occurrences. The oil embargoes of the 1970's resulted in fuel shortages and dramatic price increases. To recover the increased cost of fuel, the ICC permitted the railroads to implement fuel surcharge programs. *See, Special Permission No. 74-1825, ICC*. The railroads collectively issued fuel surcharge increases through the Association of American Railroads ("AAR").

Frequent and minor modifications were made to the fuel surcharge rate during 1974. When the AAR proposed the sixth rate increase that year, from 3.3% to 3.5%, shippers objected. *See also, Fuel Related Increases, X-305-A, 349 ICC 173, (Feb. 26, 1975)*. The League joined with others to challenge the lawfulness of the practice of frequent and minor increases. *Id.* The League asserted that the piecemeal and repetitive nature of the fuel surcharges was "impractical in comparison with the burden upon both carriers and shippers in areas such as billing, rate retrieval, and computer programming." 349 I.C.C. at 176.

The Commission rejected the proposed increase as not being "just and reasonable." 349 ICC at 177. Specifically, the ICC held that the repetitive filings of new charges for minor cost or percentage increases "... are not in the best interest of the shipping public and, in fact, approach the status of an unreasonable practice." *Id.*

The Commission also addressed fuel surcharge procedures in the Ex Parte 311 proceedings. Through these proceedings, the ICC adopted a means of "permitting the expedited recovery of fuel cost increases brought about by an import tax or alternative measures having the effect of precipitously increasing the price of fuel." *Effect of Modifying Proclamation No. 3279 and Other Anticipated Energy Conservation Measures on the Operation of Carriers Subject to the Interstate Commerce Act*, Ex Parte No. 311, 350 ICC 563, 564 (ICC August 14, 1975). In its initial proceeding under this matter, the ICC decided that a procedure for the adoption of a special permit was necessary when a carrier sought a fuel surcharge.

The ICC again revisited fuel surcharge programs in the *Modification of the Motor Carrier Fuel Surcharge Program*, Ex Parte No. 311 (Sub-No. 4), 365 ICC 311 (Oct. 5, 1981). The Commission initiated the proceeding "to consider improving" the revenue-based fuel surcharge program it had adopted in 1979. The Commission indicated that the revenue-based fuel surcharge program then in place did not "accurately reflect the fuel-related cost component of a rate" and had resulted in "several serious distortions in the rate structure." The Commission thus terminated the revenue-based fuel surcharge program and adopted a mileage-based program.

The Commission held that the national transportation policy required the promotion of efficient transportation and fair working conditions for owner-operators. The Commission further stated that its authority to require a mileage-based fuel-surcharge was derived from its authority to affect the compensation of owner-operators. The Commission noted that through the mileage-based fuel surcharge program, it was not actually regulating compensation, but was instead "merely prescribing a *procedure* relating to an individual component of compensation."

Just as the ICC in the past restricted the practices by which fuel surcharges could be imposed on shippers, the STB has the authority today to restrict the unreasonable practices of railroads imposing fuel surcharges not based on actual increases in fuel expenditures. Under 49 U.S.C. § 10702(2), the Board has the authority to regulate current fuel surcharge programs as "unreasonable practices." Additionally, when the Board a practice of that carrier violates 49 U.S.C. §§ 10101 et. seq. "the Board may prescribe. . . the practice to be followed" and the Board "may order the carrier to stop the violation." 49 U.S.C. § 10704.

The Board has previously regulated the imposition of certain surcharges as "practices" and not rates. In *Parrish & Heimbecker, Inc.—Petition for Declaratory Order*, STB Docket No. 42031 (Served, May 26, 2000)(*"P&H"*), the Board held that "the assessment and collection of the \$200 per car light-density line surcharge constituted an unreasonable practice" under 49 U.S.C. 10702. *P&H* at 26. In *P&H*, the shipper asserted that CSXT could not lawfully collect contract-transportation fees as well as a surcharge tariff for light-density line movements, and that the attempt to collect a surcharge was equivalent to double-billing for services. *Id.*, at 8. CSXT asserted that the surcharge was a reasonable, fair, and lawful way for it to recoup losses and avoid abandoning the light-density line. *Id.*

Although a light-density surcharge had previously been authorized under the Staggers Act, ICCTA repealed this provision of the Act, while at the same time reenacting the prohibition against unreasonable practices under 49 U.S.C. 10702. *Id.* Thus, the STB noted it had exclusive jurisdiction to determine the reasonableness of the practice of imposing a light-density surcharge. *Id.*, at 16. In finding the imposition of a light-density surcharge was an unreasonable practice, the Board noted that permitting "CSXT to unilaterally impose a light-density line

surcharge on top of the contract rates it negotiated for [contract] traffic" would undermine the certainty of the rail contract, in contrast to Congressional intent.

Just as in *P&H*, the STB has exclusive jurisdiction to determine the reasonableness of the practice of the carriers' current fuel surcharge programs. Where, as in here, a surcharge does not reflect an additional service, but is instead a unilateral charge, the STB may review the surcharge as an unreasonable practice.

VII. THE BOARD SHOULD TAKE ACTION TO REQUIRE MUCH GREATER TRANSPARENCY ON THE PART OF CARRIERS IN THEIR FUEL EXPENSES

There is a significant need for much greater transparency in the provision of information about rail fuel surcharges, their application, and their financial and other effects. It is difficult to match some sources of publicly available data to other sources of publicly available data, and it is very difficult to obtain any but the most general information about rail fuel costs and rail fuel surcharge and other revenues. The League believes that there should be some standardization of information, so that relevant comparisons can be made between carriers.

- 1) Carriers report their fuel expenses quarterly, but fuel surcharges are calculated monthly, making it necessary to make certain assumptions about the revenue and cost stream within the quarter.
- 2) Some carriers report their fuel expenses on a consolidated basis, apparently aggregating fuel used for transportation with fuel used for other purposes (e.g., "utilities", such as heating buildings, etc.).
- 3) Little information is publicly available on the percentage of customers covered by the carriers' fuel surcharge programs; the percentage covered by other fuel recovery devices such as the RCAF; and the percentage not covered by any formal fuel recovery methods.
- 4) It is difficult to determine precisely from publicly available data gains or losses accruing to a carrier from hedging activities.
- 5) There appears to be little available public information regarding fuel expenses for various types of service offered by rail carriers, such as carload, intermodal, unit

train coal, etc., making it difficult or impossible to determine how surcharges on one type of rail service compare with surcharges imposed on other services.

- 6) There is no public information regarding fuel use along commodity lines, and related information such as gross ton miles among commodity groups. Such information would enable rail users to better estimate fuel use for their service.

One suggestion, which the League understands will be made in more detail by Freight Resources Network LLC, would be to also include fuel surcharge information in the Public Waybill File as a distinct data field. This would permit interested persons to much more accurately evaluate fuel surcharge revenues and fuel cost increases.

In sum, the League believes that the Board could be helpful in encouraging the carriers to report relevant information on a standardized basis, and if necessary, to require them to do so.

VIII. RECOMMENDATIONS

The League recommends the following:

- 1) The Board should order each Class I carrier to submit to the Board for public consumption and analysis the information and data set forth in Section VII of these Comments, and other appropriate suggestions from the shipping public submitted in this proceeding.

- 2) Immediately after the conclusion of the May 11 hearing in this proceeding, the Board should order each Class I carrier to undertake a review of its fuel surcharge methodology and to report to the Board not more than ninety (90) days after the Board's order on the results of that review, and the changes which each carrier proposes to make in its fuel surcharge methodology in order to comply with the principles set forth in these Comments, and any other appropriate changes suggested by the shipping public, which the Board deems desirable.

Respectfully submitted,

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Dated: April 27, 2006

EXHIBIT A

Railroad Fuel Surcharge Study

By
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December 2004

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Study of Railroad Fuel Surcharge Practices

Escalation Consultants Inc.'s *Railroad Fuel Surcharge Study* was conducted to assess how various fuel surcharge formulas relate to the costs and revenues of principal Class I rail carriers. Because the fuel surcharge formulas are based upon various measures of fuel price changes, but the computed percentage of the surcharges are applied to the rail rate (rather than to the price paid for fuel), there is a question as to how closely revenues generated by the formulas accurately reimburse rail carriers for actual cost increases incurred for fuel.

For example, the Norfolk Southern uses a fuel surcharge formula based upon changes in the price of West Texas Intermediate Crude Oil. In the fourth quarter of 2001 (the base period used for this analysis), the NS reported a total fuel cost of \$96 million, or about 6.3% of total NS quarterly revenue of \$1,530 million. However, according to the Association of American Railroads, from the fourth quarter of 2001 to the first quarter of 2004, the average price that the nation's railroads paid for diesel fuel increased 42.7%.¹ This increase in the market price of fuel would suggest that the increase in NS' cost of fuel between 4Q01 and 1Q04 was approximately \$41 million ($0.427 \times \96 million). However, NS' announced surcharge of 4.80% for March 2004 would be expected to generate about \$73 million ($.048 \times \$1,530$ million), assuming quarterly total revenues are at comparable levels and assuming that the fuel surcharge was applied to all of NS' traffic. And for July 2004, the NS has announced a surcharge of 7.2%, which could generate as much as \$110 million in additional revenue.

This Study was conducted to perform a detailed assessment of railroads' fuel surcharge practices to determine whether rail carriers' fuel surcharges are accurately reimbursing railroads for their increased cost of fuel.

I. Summary of Findings

- For the period studied, assuming that each railroad's fuel surcharge applied to all of its traffic, all the railroads studied would have recovered more from their fuel surcharge practices than they incurred in increased fuel expenses, in almost all time periods.
- There were significant differences between carriers in their over-recovery of increases in their cost of fuel, and some carriers were able to control their fuel cost increases substantially better than others.
- If the current regime of fuel surcharges is applied to an average individual movement, rail customers required to pay a fuel surcharge are typically paying much more than the railroads are incurring in increased fuel expenses for that movement.

¹ The Association of American Railroad's index of average U.S. railroad fuel prices increased from 141 in the fourth quarter 2001 to 201.2 in the first quarter of 2004 representing a 42.7% increase ($201.2 \div 141 = 42.7\%$).

- Because carriers' fuel surcharges are computed as a percentage of the line-haul rate, commodities with higher rates pay more in fuel surcharges than commodities being charged lower rates, even if the railroad's cost of fuel for transporting the two commodities is the same.

II. Parameters and Assumptions of the Study

The fuel surcharge practices for the following railroads were included in the Study:

- Norfolk Southern (NS)
- Union Pacific (UP)
- Canadian National (CN)
- CSX Transportation (CSXT)
- Burlington Northern & Santa Fe (BNSF)

The time period for the Study was the fourth quarter of 2001 through the first quarter of 2004. The fourth quarter of 2001 is an appropriate base period for comparison of railroad costs and revenue related to fuel, because at that time crude oil prices were approximately \$20 per barrel and on-highway diesel prices were about \$1.25 per gallon---just below the levels at which most fuel surcharge formulas are triggered. In the early part of 2002, fuel prices actually declined for several months, which also benefited the carriers, as this study demonstrates. Fuel surcharge assessments for most carriers were triggered in the third and fourth quarter of 2002, and have remained in effect to the present day.

This Study uses three measures of the impact of fuel surcharges on railroad costs and revenues:

- 1) impact on total company-wide costs and revenues;
- 2) impact on costs and revenues per rail carload; and
- 3) impact on costs and revenues per revenue rail ton-mile.

It should be noted that in the second measure – impact of per carload revenue and costs - the number of carloads for each railroad represents the actual cars each railroad moved. The number of carloads used for intermodal movements are therefore reflective of the number of flatbed movements and not the number of containers and trailers moved by each railroad. The third measure – impact on per ton-mile revenue and costs – is useful in approximating the effects of fuel surcharges on system average individual point-to-point shipments, and may be especially significant if railroads are applying tariff-based fuel surcharges on a selective basis only to certain customers or certain classes of customers.

The Study assumes that all of the carrier's traffic is subject to the primary fuel surcharge announced by each railroad. This assumption is necessary because no complete public information is available to indicate the breakdown of traffic using specific surcharges at a railroad or whether all rail customers' movements are subject to a fuel surcharge. It is also worth noting that railroads may be applying other forms of fuel cost-related assessments on rail rates, such as the RCAF index that includes a fuel cost component. However, this study assesses only the impact of the published fuel surcharge formulas, and whether they fairly

reflect the additional fuel costs incurred by the carrier as a whole and for individual shipments.

The Study did consider that some carriers use different fuel surcharges for different kinds of traffic. The Study is, however, based on the primary surcharge methodology for each railroad, which was also the lowest surcharge for each railroad. Because the lowest surcharge methodology was used for each railroad the Study's results should be conservative.

A description of the various surcharge formulas, calculated surcharges and data for On-Highway Diesel Fuel prices and West Texas Intermediate Crude Oil (WTI) prices is contained in Attachment 1. The monthly and quarterly fuel surcharge percentage under each railroad's fuel surcharge program is contained in Attachment 2.

Data sources for the Study include all of the railroads' quarterly and annual filings to both the Securities & Exchange Commission (SEC) and the Surface Transportation Board (STB). Attachments 3-7 present actual data and comparable graphical information on individual railroad's fuel revenue and expenses over time. Each attachment includes a spreadsheet demonstrating precisely how the calculations were made. The attachments applicable to each railroad are as follows:

<u>Railroad</u>	
Norfolk Southern	Attachment 3
CSX Transportation	Attachment 4
Burlington Northern & Santa Fe	Attachment 5
Union Pacific	Attachment 6
Canadian National	Attachment 7

The quarterly fuel costs reported by each railroad in SEC and STB financial filings were taken directly from those filings with no adjustments. It should be noted that some of the railroads in this Study hedge all or a portion of their anticipated fuel needs. Fuel costs computed on a per car basis and per ton-mile basis are calculated by applying the total reported fuel cost to the reported number of rail carloads and reported revenue ton miles for each quarter.

To compute comparable fuel revenue for each carrier, the Study assumes that rail rates that were being charged in the base period (the fourth quarter of 2001) included a component to provide a revenue flow to fairly compensate the railroad for fuel used in transportation services in that quarter. The fuel costs per car reported by each carrier for the fourth quarter of 2001 thus becomes the "Base Fuel Revenue" per car for the analysis (see first equation below).

Additional revenue that the railroads earn to compensate for higher fuel costs per car is assumed to come solely from the application of the fuel surcharge formula to rail rates per car. This should be a conservative assumption, since increased revenue to cover the increased cost of fuel may come from a variety of sources, such as RCAF increases or market-driven rate increases, which have become increasingly substantial in the last year. The specific amount of revenue collected by the railroad using the surcharge formula is calculated by using the second equation shown below. The surcharge formula is applied to

each railroad's reported average revenue per car, less the fuel surcharge portion. This avoids the potential for double-counting surcharge revenue which would artificially inflate the railroad gains from the surcharge application. The Total Fuel Revenue Per Car (the third equation) is then computed by the sum of the base fuel revenue per car (first equation) and the average fuel surcharge revenue per car (second equation).

- (1) Base Fuel Revenue per Car = Average fuel cost per car in fourth quarter of 2001
- (2) Average Fuel Surcharge Revenue Per Car = (Average Revenue per Car - Fuel Surcharge Revenue) x Fuel Surcharge
- (3) Total Fuel Revenue Per Car = Base Fuel Revenue per Car + Average Fuel Surcharge Revenue per Car

The difference between a railroad's total fuel revenue per car (as calculated by the above formula for each quarter from the first quarter of 2002 through the first quarter of 2004), and that railroad's actual fuel expense per car as reported in public financial data, measures the degree to which each carrier's fuel surcharge formula is compensating that carrier for the actual change in its cost of fuel, or is instead a net income generator for the carrier.

III. Fuel Surcharge Findings

A. Change in Fuel Revenue Vs. Fuel Expense

The Fuel Surcharge Study shows that, assuming that each railroad's fuel surcharge was applied to all of its traffic, all railroads recovered more from their fuel surcharge practices than they incurred in increased fuel expenses, in almost all time periods. A summary of the quarterly amount that each railroad over- or under-recovered in fuel expenses on an average car is contained in Table 1.

Table 1
Difference in Fuel Revenue & Fuel Expense Per Car

	NS \$28 & \$23/bar Surcharge	CSXT \$28 & \$23/bar Surcharge	UP \$1.35/gal & \$28/bar Surcharge	BNSF \$1.25/gal Surcharge	CN \$24/bar Surcharge
1Q02	\$7.36	\$4.70	\$26.80	\$15.89	-\$2.42
2Q02	\$8.87	\$4.07	\$14.89	\$9.71	\$0.38
3Q02	\$11.14	\$5.80	\$12.68	\$11.01	\$19.72
4Q02	\$11.18	\$5.90	\$0.04	\$2.30	\$29.12
1Q03	\$8.03	-\$12.10	-\$13.23	\$0.33	\$26.47
2Q03	\$22.67	\$10.11	\$14.09	\$20.92	\$47.23
3Q03	\$26.05	\$17.10	\$16.02	\$16.84	\$45.17
4Q03	\$21.25	\$15.96	\$17.16	\$16.23	\$39.46
1Q04	\$24.36	\$16.45	-\$6.47	\$17.65	\$29.91
- Shaded areas indicate that no fuel surcharges were in effect, but the actual cost of fuel declined. - Bold values indicate the first quarter in which a new surcharge methodology was implemented.					

Fuel surcharges were not applicable in all time periods. The shaded areas in Table 1 indicate quarters in which no fuel surcharge was applicable. The over-recovery of fuel expenses during several of the quarters in 2002 occurred because the railroad's fuel costs during that quarter decreased, and not from an over-recovery from a fuel surcharge. Thus the "gain" shown in the shaded portions of the table is the result of a stable fuel revenue per car (at fourth quarter 2001 levels) plus declines in the actual cost of fuel.

The fuel surcharge program of CSXT and UP changed in June 2003 and NS changed its program in March 2004. The value for the quarter in which the railroad's fuel surcharge program changed is in bold in Table 1. Each of these changes had the effect of increasing railroad fuel revenue. The fuel surcharge increase from the old fuel surcharge program versus the new program in the month the new fuel surcharge program was implemented is as follows.

Table 2
**Increase From New Fuel Surcharge Program
in the Month it was Implemented**

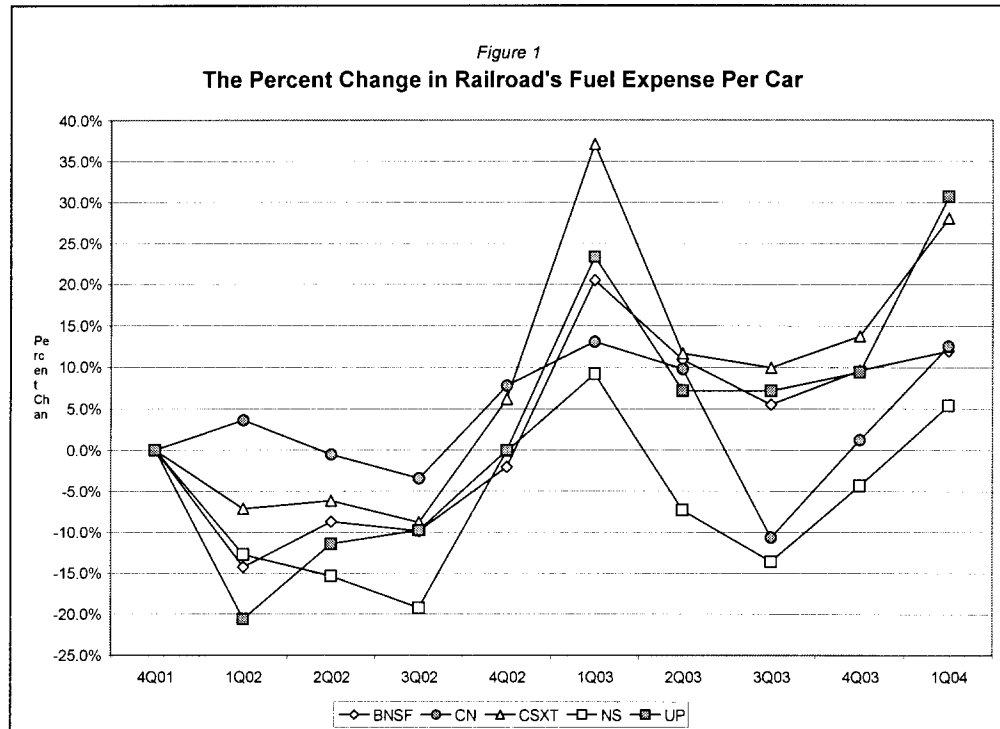
Railroad	Month Implemented	Old Fuel Surcharge Program	New Fuel Surcharge Program	Fuel Surcharge Increase
CSXT	June-03	2.0%	2.4%	0.4%
UP	June-03	2.0%	3.0%	1.0%
NS	March-04	4.0%	4.8%	0.8%

* UP elected to reduce the fuel surcharge under its new methodology back to 2% for the month of June 2003. This reduction was only made for the month of June 2003.

Table 1 shows that CN over-collected more through fuel surcharges per car than all other railroads. CN's over-recovery per car in the first quarter 2004 was \$29.91 per car. Part of the reason for the large CN over-recovery shown by our calculations was the improvement in the value of the Canadian dollar in relation to the U.S. dollar.

A review of the over-recovery of fuel costs per car contained in Table 1, between the fourth quarter 2003 and the first quarter 2004, provides insight into each railroad's ability to control its fuel costs. The attachments to the Study show that the first quarter 2004 fuel increase per car was \$2.64 for BNSF and \$5.63 for NS. In contrast, the increase in CSXT's fuel costs was much higher at \$9.44 per car, and UP's fuel costs increased a staggering \$27.71 per car. UP's inability to control its fuel costs in the first quarter of 2004 led to a \$6.47 under-recovery of fuel cost on an average car. However, part of this fuel cost increase for the UP could also be related to logistical difficulties for the UP, leading to higher fuel consumption per car. CN had a fuel cost increase of \$7.78 per car in the first quarter of 2004, but it still had a substantial over-recovery of fuel expenses as CN's fuel cost per car only increased 12.5% from the fourth quarter of 2001 while its fuel surcharge revenue per car increased 49.1%.

BNSF and NS do hedge their fuel costs, and this has helped limit the increase in their fuel expenses. Hedging thus in part allowed BNSF and NS to have the highest over-recovery of fuel costs after CN. A measure of each railroad's ability to control its fuel cost is presented in the following graph showing the percent change in each railroad's average fuel expense per car (Figure 1). This graph shows that NS has controlled its fuel costs better than all the other railroads. The BNSF and the CN were the next best at controlling their cost of fuel.



Details on the quarterly changes in fuel revenue and expense for each railroad are found in Attachments 3 through 7 to this Study.

The Study shows that the railroads' fuel surcharge assessments have generally increased more than reported fuel costs. The percent change in the railroads' fuel surcharge revenue per car versus their fuel expense per car between the fourth quarter 2001 and the first quarter 2004 are shown in Table 3.

Table 3
Percent Change in Fuel Expense Per Car Vs.
Fuel Surcharge Revenue Per Car
 (4th Quarter 2001 to 1st Quarter 2004)

	Fuel Expense Per Car	Fuel Surcharge Revenue Per Car
NS	5.4%	47.5%
CSXT	28.0%	53.0%
BNSF	11.9%	27.8%
UP	30.7%	25.7%
CN	12.5%	49.1%

Note that the percent change in fuel surcharge revenue and expenses is calculated from the base fuel cost in the fourth quarter of 2001.

Most of the railroad's over-recovery of fuel costs occurred over the last four quarters of the Fuel Surcharge Study (second quarter of 2003 through the first quarter of 2004). The over-recovery of fuel for each railroad for the four quarters including the second quarter of 2003 through the first quarter of 2004 is shown in Table 4.

Table 4
Fuel Revenue Versus Fuel Expenses Between
Second Quarter 2003 and First Quarter 2004

	Fuel Revenue*	Fuel Expenses	Increase in Fuel Revenue Above Expenses
UP	\$1,474,288,646	\$1,378,000,000	\$96,288,646
CSXT	\$671,594,410	\$562,000,000	\$109,594,410
NS	\$547,303,462	\$383,000,000	\$164,303,462
BNSF	\$1,231,464,750	\$1,074,000,000	\$157,464,750
CN	\$512,852,499	\$344,360,436	\$168,492,063
TOTAL	\$ 4,437,503,768	\$3,741,360,436	\$696,143,331
* Fuel revenue assumes fuel surcharges apply to all rail movements.			

B. Recovery of Fuel Costs On a Revenue Ton Mile Basis

The Study also calculated each railroad's over-recovery of fuel costs on a revenue ton mile basis. Table 5 shows the fuel over-recovery of fuel expense per revenue ton mile between the second quarter of 2003 and the first quarter of 2004. Details on each railroad's fuel recovery per revenue ton-mile are contained in Attachments 3-7.

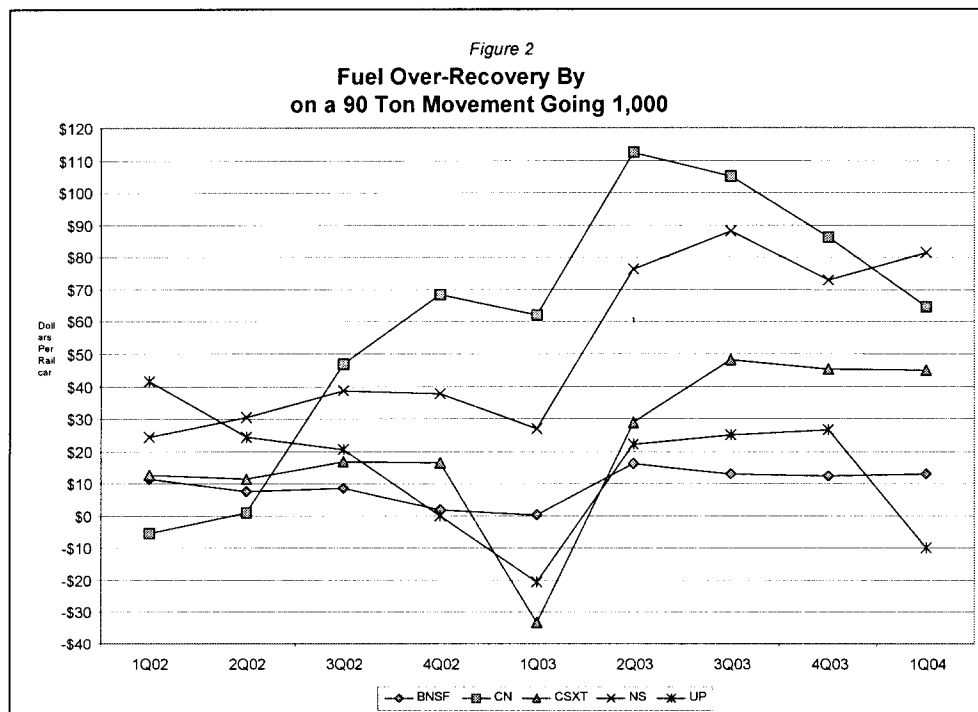
Table 5
Difference in Fuel Revenue and Fuel Expense
On a Revenue Ton Mile Basis
(cents per revenue ton mile²)

	BNSF	CN	CSXT	NS	UP
2Q03	0.036	0.125	0.032	0.085	0.025
3Q03	0.029	0.117	0.053	0.098	0.028
4Q03	0.027	0.096	0.050	0.081	0.030
1Q04	0.029	0.072	0.050	0.090	-0.011

Generally, the longer a movement, the greater the potential for fuel surcharge problems, since longer movements use more fuel and tend to have higher total rates than shorter movements. The fuel over-recovery is calculated on a ton mile basis in order to be able to calculate recovery of fuel costs on average movements on each rail system. To simplify this process, we assumed the following parameters for movements.

- 90 tons per car, 500 mile movement
- 90 tons per car, 1,000 mile movement
- 90 tons per car, 2,000 mile movement

The fuel surcharge on these movements is contained in Attachments 3-7. A graph showing the over-recovery on a 1,000 mile 90 ton movement is contained in Figure 2.



² All railroads, other than CN have amounts that represent one-hundredth of a cent per revenue ton mile in Table 5.

The figures set forth in Table 5 also indicate that there are very substantial differences between carriers in the over-recovery of their fuel expense via fuel surcharges. For example, BNSF's fuel surcharge on a 50-car shipment with 100 tons moving a distance of 1000 miles in the first quarter of 2004 would over-recover the actual fuel expense by \$29 per car and \$1,450 per train ($\$0.00029 \text{ cents per revenue ton mile} \times 100 \text{ tons per car} \times 1,000 \text{ miles}$, then times 50 cars per train), whereas the same movement on NS would generate an over-recovery of \$90 per car and \$4500 per train. Moreover, because the fuel surcharge is applied to the rate, movements with higher rates would, other factors being equal, generate larger over-recoveries than movements with lesser rates.

C. Trends for Future Time Periods

The time frame for this study ended in the first quarter of 2004. The over-recovery of fuel surcharges will likely be much larger for railroads in the second and third quarters of 2004. The reasons for this are:

- There is a two-month lag for most railroads between the time period when fuel prices in the market place change and when fuel costs impact a railroad's fuel surcharge. This means the most current fuel prices in the Study come from November and December 2003 and January 2004.
- The price of fuel has increased substantially since January 2004 (refer to fuel prices in Attachment 1). Moreover, the level of the railroads' fuel surcharges has increased as well. A comparison of March 2004 surcharges (the last month included in this Study) and the effective surcharges for July 2004 reflect these upward trends.

	<u>Fuel Surcharge Percentages</u>	
	<u>March 2004</u>	<u>July 2004</u>
NS	4.8%	7.2%
CSXT	4.8%	7.2%
UP	3.5%	5.0%
BNSF	3.5%	5.0%
CN	4.0%	8.0%

IV. Comments on the Analysis and Conclusions

This analysis estimates that fuel surcharge formulas currently in use by rail carriers systematically overcompensate the carriers for higher fuel costs, and in particular when applied to individual movements. While we acknowledge that not all rail customers may be paying the computed formula-based fuel surcharges, the assumption used in this study---that it does apply equally to all customers---became a necessary starting point, because no useful public information exists regarding the proportion of rail customers or shipments that are able to avoid paying the surcharge. Clearly, those against whom the surcharge is assessed pay far more per car or per ton-mile in surcharge revenue than is justified by the increased cost of fuel attributable to those shippers. Moreover, it should also be recognized that the railroads' current system of compensation for fuel cost increases includes not only fuel

surcharges, but also: 1) rate increases on expiring contracts; 2) increases for tariffs; 3) and other escalation methods that periodically increase rates for changes in fuel costs (e.g., the RCAF Index). Some rail customers may pay rate increases for their shipments under more than one of these compensation methods. Thus, the amount a railroad collects from fuel surcharges may be only a portion of the total reimbursement railroads receive for their fuel cost increases. Depending on the proportion of rail customers paying the computed fuel surcharges and the incidence of other methods for recovering the increased cost of fuel, the actual total compensation for fuel received by each carrier could be higher or lower than the company-wide data presented in this analysis.

This analysis provides a firm foundation for concluding that as fuel costs increase above the base level for computing surcharges and as fuel surcharge percentages go to higher levels, those rail customers that are required to pay the surcharges are highly likely to contribute an increasing amount to the overall income of the railroad. On the average rail movement that is subject to fuel surcharges and possibly other fuel-cost related assessments noted above, this Study clearly shows that such rail customers typically pay much more in fuel surcharges to the railroads than the railroads are incurring in increased fuel expenses. Finally, because all carriers' fuel surcharges are computed as a percentage of the line-haul rate, commodities having higher rates will pay more in fuel surcharges than commodities being charged lower rates, even if the use of fuel for transporting the two commodities is the same. The stated intention of a fuel surcharge is to compensate a carrier for increases and decreases in fuel prices in a volatile market. Railroads have stated that the intent of their fuel surcharge programs is to allow them to directly respond to the changing cost of fuel. It is clear from this Study that the current fuel surcharge methodology significantly exceeds actual fuel cost increases that railroads have incurred.

Description of Fuel Surcharge Methods

WTI \$28 Per Barrel Fuel Surcharge (used in the past by NS, CSXT and UP)

This fuel surcharge is applicable when the WTI price per barrel exceeds the \$28 per barrel trigger level for thirty (30) consecutive days as reported in the Wall Street Journal. The primary price trigger was set at \$28 per barrel and a 2% surcharge applied to the rail rate. For each five dollar per barrel increment sustained for thirty (30) consecutive days, the surcharge increases an additional 2%. The surcharge remains in place until the WTI price per barrel drops below the trigger level for thirty (30) consecutive days.

WTI \$24 Per Barrel Fuel Surcharge (used by CN)

This quarterly fuel surcharge is applicable when the WTI price per barrel exceeds the \$24 per barrel trigger level for a calendar quarter. The surcharge applicable to the rail rate is as follows:

West Texas Crude Oil (Price Per Barrel \$US)	Surcharge
\$24.00 - \$26.99	2.00%
\$27.00 - \$31.99	4.00%
\$32.00 - \$36.99	6.00%
\$37.00 - \$41.99	8.00%
Ea. \$5 US increase thereafter	Additional 2%

WTI \$23 Per Barrel Fuel Surcharge (used by NS and CSXT)

In 2003 and 2004 the CSXT and NS changed their West Texas Intermediate Crude Oil (WTI) \$28 per barrel surcharge mechanisms, described above, to the WTI \$23 per barrel methodology. The fuel surcharge trigger mechanism was also revised. Under the new system a 0.4% increase is initiated at price levels above \$23.00 per barrel. An additional 0.4% increment is imposed with each \$1.00 increase in the price per barrel. In addition, the surcharges are now applied based on the monthly average WTI prices. Prior to this, the WTI price had to remain above the prescribed level for thirty (30) consecutive days in order to trigger surcharges. This mechanical change expedites the flow of cash because it is initiated at lower levels and it enables the carriers to collect when oil prices increase despite wide variances in day to day prices. There is a two month lag between the survey month for the WTI price and the month the \$23 WTI fuel surcharge impacts the rate for a movement.

On-Highway \$1.25 Per Gallon Fuel Surcharge (used by BNSF)

The basis for the application of the fuel surcharge is the Department of Energy's On-Highway Diesel Fuel Price (U.S. Average). The surcharge is triggered when the average for a particular month equals or exceeds \$1.25 per gallon. For every subsequent \$0.05 increase in the price per gallon above \$1.25 an additional 0.5% increment is added to the surcharge rate. There is a two-month lag between the survey month for diesel fuel prices and when they impact the fuel surcharge.

On-Highway \$1.35 Per Gallon Fuel Surcharge (used by UP)

The \$1.35 per gallon surcharge is very similar to the \$1.25 per gallon surcharges, it just has a higher trigger threshold. The surcharge is triggered when the average for a particular month equals or exceeds \$1.35 per gallon. A 1.5% increase is applied to rail rates two months after the \$1.35 threshold is met. For every subsequent \$0.05 increase in the price per gallon above \$1.35 an additional 0.5% increment is added to the surcharge rate.

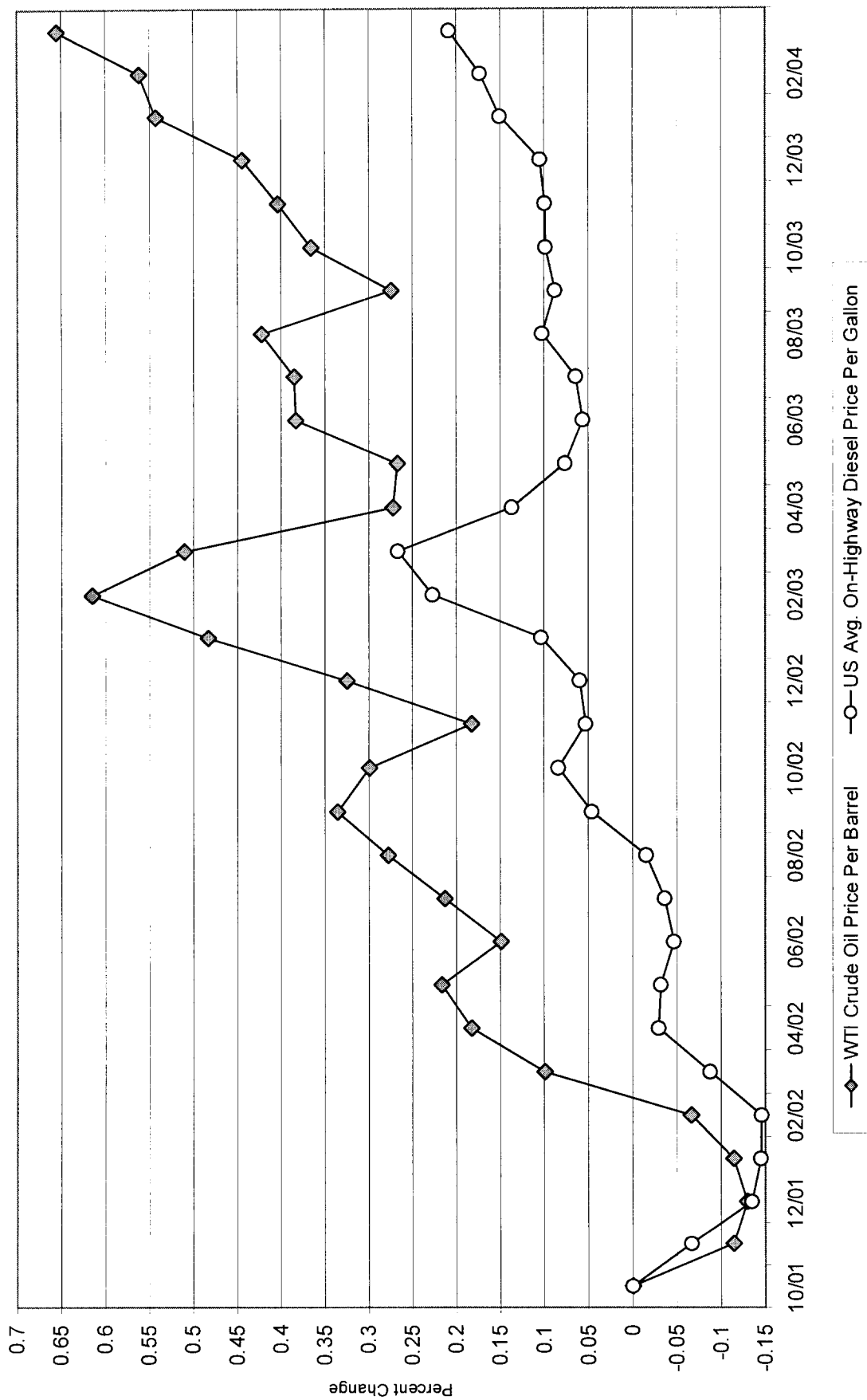
The triggers for these surcharges are either the WTI Crude Oil price per barrel, or the On-Highway Diesel Fuel price per gallon. The graph on page 4 of this attachment tracks the percent change in these two fuel prices between October 2001 and March 2004. The average monthly prices for both of these fuels are on page 3 of this attachment.

It should be noted that the WTI Crude Oil price per barrel both increase and decrease more radically than the On-Highway Diesel Fuel price per gallon. One reason for this is that the price of crude oil contains little distribution/transportation expenses or taxes. These "fixed" costs that are contained in the On-Highway Diesel Fuel price per gallon and act as dampers on the changes in the commodity price. The cumulative change in the WTI was 65.3% versus the 20.8% change in the On-Highway price per gallon.

**Historical Prices for West Texas Intermediate Crude Oil
and On-Highway Diesel Fuel Price for the U.S.
October 2001 to March 2004**

<u>Month</u>	WTI Crude Oil	EIA Retail On-Highway
	<u>Price Per Barrel</u>	<u>Diesel Prices Per Gallon US Avg.</u>
10/01	\$22.18	\$134.84
11/01	\$19.80	\$125.88
12/01	\$19.39	\$116.66
01/02	\$19.71	\$115.28
02/02	\$20.72	\$115.18
03/02	\$24.53	\$123.03
04/02	\$26.18	\$130.88
05/02	\$27.04	\$130.53
06/02	\$25.52	\$128.55
07/02	\$26.97	\$129.94
08/02	\$28.39	\$132.75
09/02	\$29.66	\$141.06
10/02	\$28.84	\$146.15
11/02	\$26.35	\$141.98
12/02	\$29.46	\$142.88
01/03	\$32.96	\$148.78
02/03	\$35.83	\$165.43
03/03	\$33.51	\$170.80
04/03	\$28.17	\$153.25
05/03	\$28.11	\$145.13
06/03	\$30.66	\$142.40
07/03	\$30.75	\$143.50
08/03	\$31.57	\$148.65
09/03	\$28.31	\$146.66
10/03	\$30.34	\$148.13
11/03	\$31.11	\$148.23
12/03	\$32.13	\$148.98
01/04	\$34.31	\$155.10
02/04	\$34.68	\$158.20
03/04	\$36.74	\$162.63

Percent Change in the WTI Crude Oil Price Per Barrel Versus the On-Highway Diesel Fuel Price Per Gallon



Average Monthly Fuel Surcharges for Railroads

	(1) NS	(2) CSXT	(3) UP	(4) BNSF	(5) CN
	\$28 & \$23/Barrel Fuel <u>Surcharge</u>	CSXT \$28 & \$23/Barrel Fuel <u>Surcharge</u>	\$28/Barrel & \$1.35/Gallon Fuel <u>Surcharges</u>	\$1.25/Gallon Fuel <u>Surcharge</u>	\$24/Barrel Fuel <u>Surcharge</u>
01/02	0.00%	0.00%	0.00%	0.0%	0.0%
02/02	0.00%	0.00%	0.00%	0.0%	0.0%
03/02	0.00%	0.00%	0.00%	0.0%	0.0%
04/02	0.00%	0.00%	0.00%	0.0%	0.0%
05/02	0.00%	0.00%	0.00%	0.0%	0.0%
06/02	0.00%	0.00%	0.00%	1.0%	0.0%
07/02	0.00%	0.00%	0.00%	1.0%	2.0%
08/02	0.00%	0.00%	0.00%	0.0%	2.0%
09/02	0.00%	0.00%	0.00%	0.0%	2.0%
10/02	0.96%	0.96%	0.00%	1.0%	4.0%
11/02	2.00%	2.00%	0.00%	2.0%	4.0%
12/02	0.60%	0.60%	0.00%	2.5%	4.0%
01/03	0.29%	0.29%	0.38%	2.0%	4.0%
02/03	2.00%	2.00%	2.00%	2.0%	4.0%
03/03	2.00%	2.00%	2.00%	2.5%	4.0%
04/03	2.00%	2.00%	2.00%	4.5%	6.0%
05/03	2.00%	2.00%	2.00%	2.0%	6.0%
06/03	2.00%	2.40%	2.00%	3.0%	6.0%
07/03	2.00%	2.40%	2.50%	2.5%	4.0%
08/03	2.00%	3.20%	2.00%	2.0%	4.0%
09/03	2.00%	3.20%	2.00%	2.0%	4.0%
10/03	2.00%	3.60%	2.50%	2.5%	4.0%
11/03	2.00%	2.40%	2.50%	2.5%	4.0%
12/03	2.00%	3.20%	2.50%	2.5%	4.0%
01/04	2.00%	3.60%	2.50%	2.5%	4.0%
02/04	2.00%	4.00%	2.50%	2.5%	4.0%
03/04	4.80%	4.80%	3.50%	3.5%	4.0%

⁽¹⁾ NS used the \$28 WTI Per Barrel Fuel Surcharge Program through February 2004. NS switched to \$23 WTI per barrel program as of March 1, 2004.

⁽²⁾ CSXT used the \$28 WTI Per Barrel Fuel Surcharge Program from October 2001 through May 2003. The \$23 WTI per barrel program was used from June 2003 through March 2004.

⁽³⁾ UP used the \$28 WTI Per Barrel Fuel Surcharge Program between November 1, 2002 and May 2003. The \$1.35 On-Highway Price Per Gallon Program was implemented June 1, 2003 and is the current primary fuel surcharge program for UP.

⁽⁴⁾ BNSF used the \$1.25 On-Highway Price Per Gallon Fuel Surcharge Program over the whole time

⁽⁵⁾ CN used the \$24 WTI Per Barrel Fuel Surcharge Program over the whole time period.

Average Quarterly Fuel Surcharges for Railroads

	(1) NS \$28/Barrel Fuel <u>Surcharge</u>	(2) CSXT CSXT \$28 & \$23/Barrel Fuel <u>Surcharge</u>	(3) UP \$28/Barrel & \$1.35/Gallon Fuel <u>Surcharges</u>	(4) BNSF \$1.25/Gallon Fuel <u>Surcharge</u>	(5) CN \$24/Barrel Fuel <u>Surcharge</u>
1Q02	0.00%	0.00%	0.00%	0.00%	0.00%
2Q02	0.00%	0.00%	0.00%	0.00%	0.00%
3Q02	0.00%	0.00%	0.00%	0.00%	2.00%
4Q02	1.19%	1.19%	0.00%	0.00%	4.00%
1Q03	1.43%	1.43%	1.46%	2.17%	4.00%
2Q03	2.00%	2.13%	2.00%	3.17%	6.00%
3Q03	2.00%	2.93%	2.17%	2.17%	4.00%
4Q03	2.00%	3.07%	2.50%	2.50%	4.00%
1Q04	2.93%	4.13%	2.83%	2.83%	4.00%

⁽¹⁾ NS used the \$28 WTI Per Barrel Fuel Surcharge Program through February 2004. NS switched to \$23 WTI per barrel program as of March 1, 2004.

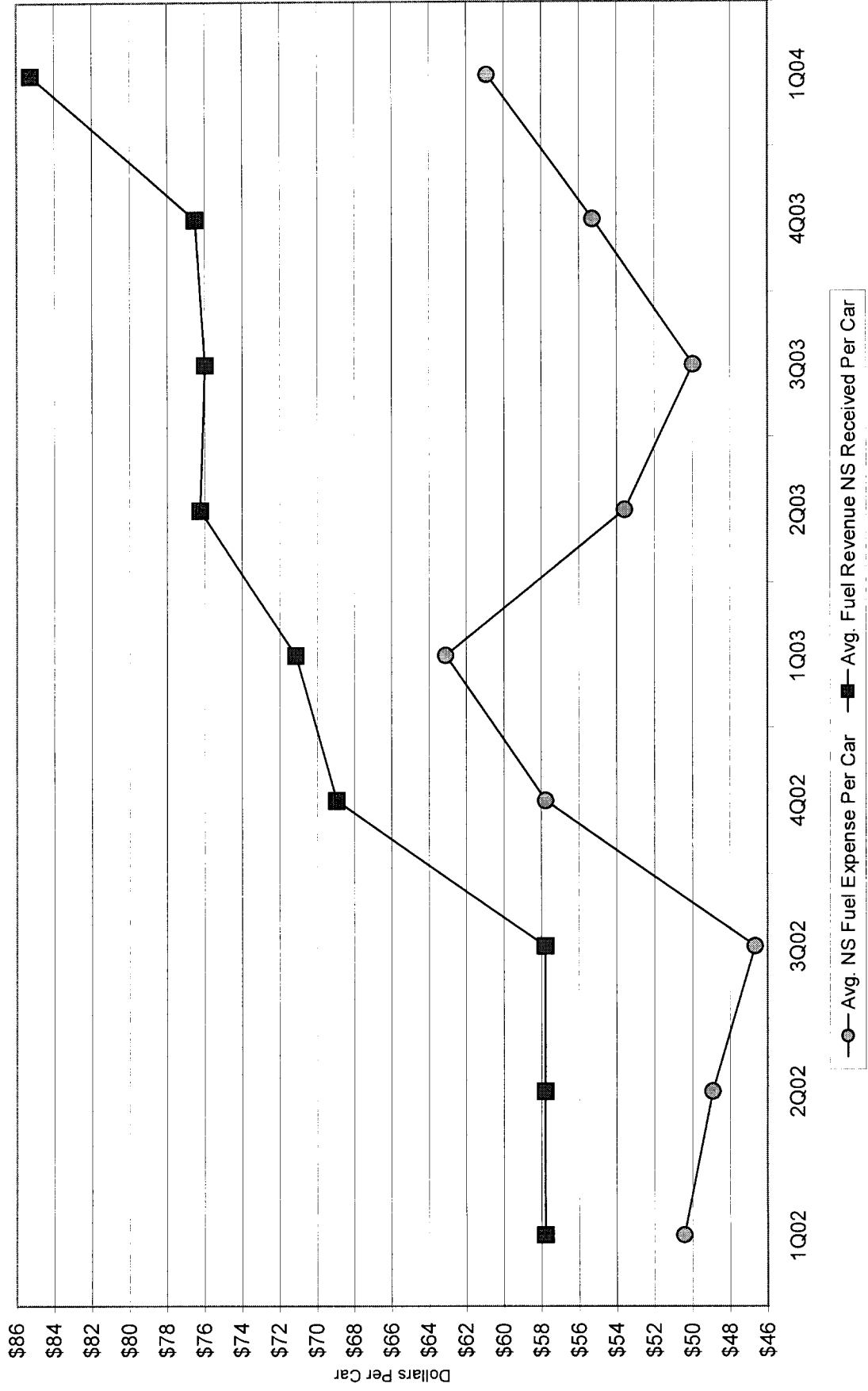
⁽²⁾ CSXT used the \$28 WTI Per Barrel Fuel Surcharge Program from October 2001 through May 2003. The \$23 WTI per barrel program was used from June 2003 through March 2004.

⁽³⁾ UP used the \$28 WTI Per Barrel Fuel Surcharge Program between November 1, 2002 and May 2003. The \$1.35 On-Highway Price Per Gallon Program was implemented June 1, 2003 and is the current primary fuel surcharge program for UP.

⁽⁴⁾ BNSF used the \$1.25 On-Highway Price Per Gallon Fuel Surcharge Program over the whole time period.

⁽⁵⁾ CN used the \$24 WTI Per Barrel Fuel Surcharge Program over the whole time period.

NS Average Fuel Cost Per Car Versus the Average Fuel Revenue NS Receives Per Car



* Average fuel revenue received includes base fuel cost and the fuel surcharge.
Average amount assumes all movements are subject to the surcharge.

Norfolk Southern (NS) Calculations

Details on Revenue from NS \$28 and \$23 Per Barrel Fuel Surcharge Versus NS's Actual Fuel Expenditures

Date	(1) Fuel Expense	(2) Carloads	(3) Fuel Exp/Car	(4) Surcharge (C1+C2)	(5) Avg Rate/Car without Surcharge Revenue C7 Worksheet	(6) Avg Fuel Surcharge/Car (C4 x C5)	(7) Avg Fuel Revenue/Car (C6 + 57.80)	(8) Difference in Fuel Rev & Exp Per Car (C7 - C3)	(9) Total from Surcharge (C6 x C2)	(10) Total Fuel Revenue (C7 x C2)	(11) Difference in Fuel Rev & Exp (C10 - C1)	(12) % Change Fuel Expense Per Car (C3 + 57.80)	(13) % Change in Fuel Surcharge Rev/Car (C7 + 57.80)
4Q01	\$96,000,000	1,661,000	\$57.80	0.00%	\$933	\$0.00	\$57.80	\$7.36	\$0	\$92,821,192	\$11,821,192	-12.7%	0.0%
1Q02	\$81,000,000	1,606,000	\$50.44	0.00%	\$928	\$0.00	\$57.80	\$8.87	\$0	\$99,236,604	\$15,236,604	-15.4%	0.0%
2Q02	\$84,000,000	1,717,000	\$48.92	0.00%	\$921	\$0.00	\$57.80	\$11.14	\$0	\$100,334,738	\$19,334,738	-19.3%	0.0%
3Q02	\$81,000,000	1,736,000	\$46.66	0.00%	\$940	\$11.15	\$68.94	\$11.18	\$18,523,275	\$114,581,071	\$18,581,071	-0.1%	19.3%
4Q02	\$96,000,000	1,662,000	\$57.76	1.19%	\$934	\$13.34	\$71.14	\$8.03	\$21,985,915	\$117,234,561	\$13,234,561	9.2%	23.1%
1Q03	\$104,000,000	1,648,000	\$63.11	1.43%	\$922	\$18.44	\$76.24	\$22.67	\$32,019,608	\$132,354,346	\$39,354,346	-7.3%	31.9%
2Q03	\$93,000,000	1,736,000	\$53.57	2.00%	\$910	\$18.20	\$75.99	\$26.05	\$31,333,333	\$130,858,920	\$44,858,920	-13.6%	31.5%
3Q03	\$86,000,000	1,722,000	\$49.94	2.00%	\$936	\$18.73	\$76.52	\$21.25	\$32,862,745	\$134,295,617	\$37,295,617	-4.4%	32.4%
4Q03	\$97,000,000	1,755,000	\$55.27	2.00%	\$936	\$27.46	\$85.26	\$24.36	\$48,246,114	\$149,794,579	\$42,794,579	5.4%	47.5%
1Q04	\$107,000,000	1,757,000	\$60.90	2.93%									
Total													
2Q03-1Q04	\$383,000,000												
									Total 2Q03-1Q04	\$547,303,462			
									Excess Revenue	\$164,303,462			

C1: Source - NS Quarterly SEC filing.

C2: Source - NS Quarterly SEC filing.

C4: Source - Fuel surcharge on \$28 Per Barrel Fuel Surcharge Program from Oct. 2001 through Mar. 2004.

C7: Includes fuel cost/car in 4Q01, plus fuel surcharge revenue on average rate.

C9: Assumes all movements use the NS fuel surcharge program.

WTI \$28 Per Barrel Fuel Surcharge (Program in effect through February 2004)

The fuel surcharge is applicable when the WTI price per barrel exceeds the \$28 per barrel trigger level for thirty (30) consecutive days as reported in the *Wall Street Journal*. The primary price trigger was set at \$28 per barrel and a 2% surcharge applied to the rail rate. For each five dollar per barrel increment sustained for thirty (30) consecutive days, the surcharge increases an additional 2%. The surcharge remains in place until the WTI price per barrel drops below the trigger level for thirty (30) consecutive days.

WTI \$23 Per Barrel Fuel Surcharge (Program was implemented March 2004)

The NS changed their West Texas Intermediate Crude Oil (WTI) \$28 per barrel surcharge mechanisms to the WTI \$23 per barrel methodology in March 2004. The fuel surcharge trigger mechanism was also revised. Under the new system a 0.4% increase is initiated at price levels above \$23.00 per barrel. An additional 0.4% increment is imposed with each \$1.00 increase in the price per barrel. In addition, the surcharges are now applied based on the monthly average WTI prices. Prior to this, the WTI price had to remain above the prescribed level for thirty (30) consecutive days in order to trigger surcharges. This mechanical change expedites the flow of cash because it is initiated at lower levels and it enables the carriers to collect when oil prices increase despite wide variances in day to day prices. There is a two month lag between the survey month for the WTI price and the month the \$23 WTI fuel surcharge impacts the rate for a movement.

Support for Values in NS \$28 and \$23 Per Barrel Workpaper

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Total	Fuel	Adjusted	Total	Total	Average	Average	Total Fuel
	Revenue	Surcharge	Revenue	Fuel Expense	Carloads	Rev/Car	Adjusted	Exp/Car
			C1 + (1+C2)			(C1 + C5)	Rev/Car	(C4 + C5)
							(C3 + C5)	
4Q01	\$1,530,000,000			\$96,000,000	1,661,000	\$921		\$57.80
1Q02	\$1,498,000,000	0.00%	\$1,498,000,000	\$81,000,000	1,606,000	\$933	\$933	\$50.44
2Q02	\$1,593,000,000	0.00%	\$1,593,000,000	\$84,000,000	1,717,000	\$928	\$928	\$48.92
3Q02	\$1,598,000,000	0.00%	\$1,598,000,000	\$81,000,000	1,736,000	\$921	\$921	\$46.66
4Q02	\$1,581,000,000	1.19%	\$1,562,476,725	\$96,000,000	1,662,000	\$951	\$940	\$57.76
1Q03	\$1,561,000,000	1.43%	\$1,539,014,085	\$104,000,000	1,648,000	\$947	\$934	\$63.11
2Q03	\$1,633,000,000	2.00%	\$1,600,980,392	\$93,000,000	1,736,000	\$941	\$922	\$53.57
3Q03	\$1,598,000,000	2.00%	\$1,566,666,667	\$86,000,000	1,722,000	\$928	\$910	\$49.94
4Q03	\$1,676,000,000	2.00%	\$1,643,137,255	\$97,000,000	1,755,000	\$955	\$936	\$55.27
1Q04	\$1,693,000,000	2.93%	\$1,644,753,886	\$107,000,000	1,757,000	\$964	\$936	\$60.90

C3: Revenue without fuel surcharge revenue.

C6: Revenue per car without fuel surcharge revenue.

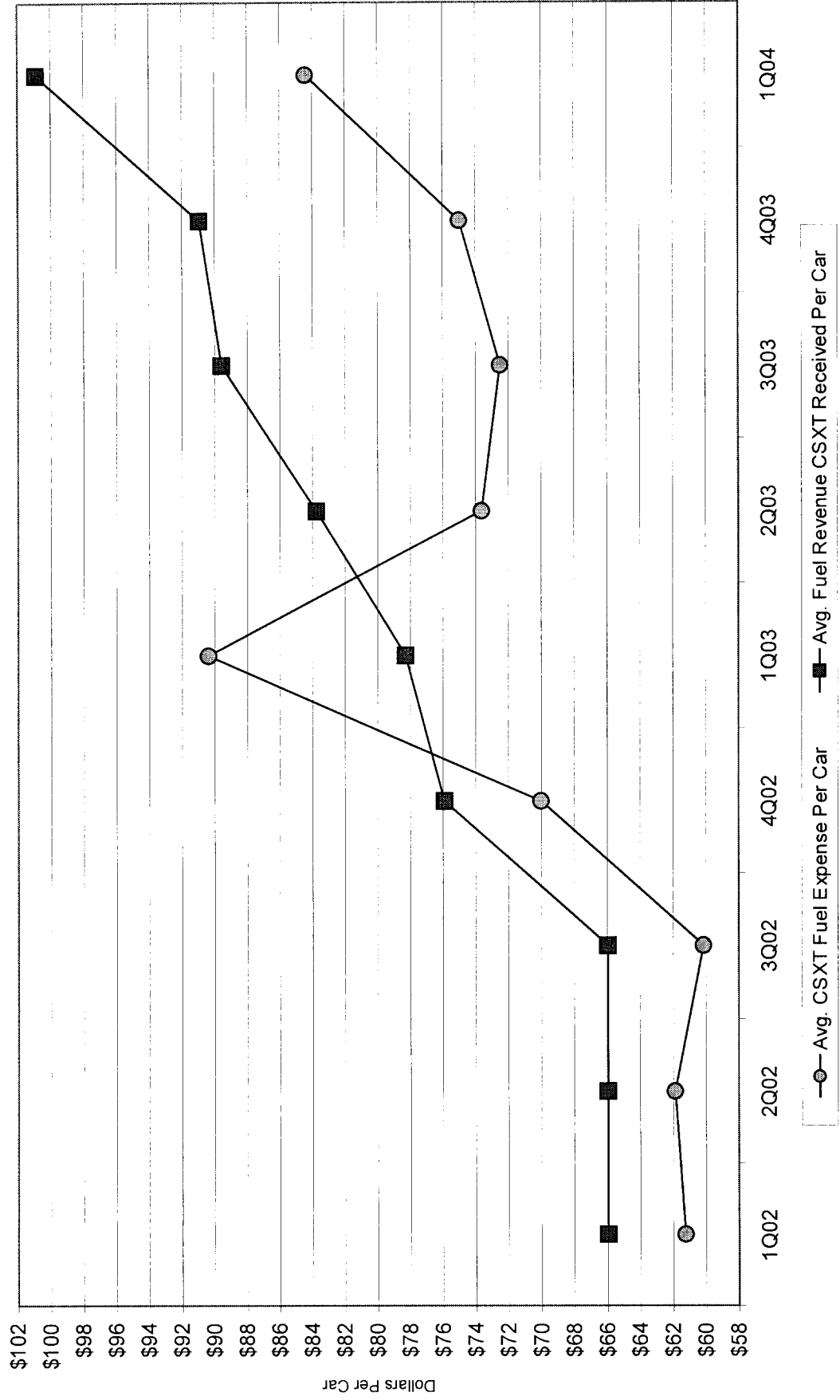
Support for Norfolk Southern Fuel Revenue and Expense Per Ton Mile

	(1) Revenue Ton Miles	(2) Fuel Expense	(3) Fuel Expense Per Revenue Ton Mile (C2 ÷ C1)	(4) Total Fuel Revenue (C10 Calculation Sheet)	(5) Total Fuel Revenue Per Revenue Ton Mile (C4 ÷ C1)	(6) Difference In Fuel Revenue & Expense Per Ton Mile (C5 - C3)
1Q02	\$44,000,000,000	81,000,000	0.00184	\$92,821,192	0.00211	0.00027
2Q02	\$45,300,000,000	84,000,000	0.00185	\$99,236,604	0.00219	0.00034
3Q02	\$45,200,000,000	81,000,000	0.00179	\$100,334,738	0.00222	0.00043
4Q02	\$44,500,000,000	96,000,000	0.00216	\$114,581,071	0.00257	0.00042
1Q03	\$44,600,000,000	104,000,000	0.00233	\$117,234,561	0.00263	0.00030
2Q03	\$46,500,000,000	93,000,000	0.00200	\$132,354,346	0.00285	0.00085
3Q03	\$45,800,000,000	86,000,000	0.00188	\$130,858,920	0.00286	0.00098
4Q03	\$46,200,000,000	97,000,000	0.00210	\$134,295,617	0.00291	0.00081
1Q04	\$47,400,000,000	107,000,000	0.00226	\$149,794,579	0.00316	0.00090

	Fuel Over- Recovery on 90 Ton, 500 Mile Movement	Fuel Over- Recovery on 90 Ton, 1000 Mile Movement	Fuel Over- Recovery on 90 Ton, 2000 Mile Movement
1Q02	\$12.090	\$24.180	\$48.359
2Q02	\$15.136	\$30.271	\$60.543
3Q02	\$19.249	\$38.498	\$76.997
4Q02	\$18.790	\$37.580	\$75.159
1Q03	\$13.353	\$26.707	\$53.413
2Q03	\$38.085	\$76.170	\$152.339
3Q03	\$44.075	\$88.151	\$176.301
4Q03	\$36.327	\$72.654	\$145.308
1Q04	\$40.628	\$81.256	\$162.511

Columns 3, 5 and 6 are on a per dollar basis, which means that an amount of 0.0003 represents three-tenths of a mill per revenue ton mile or three one-hundreds of a cent per revenue ton mile.

CSXT Average Fuel Cost Per Car Versus the Average Fuel Revenue CSXT Receives Per Car



* Average fuel revenue received includes base fuel cost and the fuel surcharge.
Average amount assumes all movements are subject to the surcharge.

CSX Transportation (CSXT) Calculations

Total 2Q03-1Q04	\$671,594,410
Excess Revenue	\$109,594,410

C1: Source - CSXT Quarterly SEC filing.

C2: Source - CSXT Quarterly SEC filing:

C4: Source - Fuel surcharge on \$28 Per Barrel Fuel Surcharge Program from Oct 2001 through Mar. 2004.

C.7: Includes fuel cost/car in 4Q01, plus fuel surcharge revenue on average rate.

C9: Assumes all movements use the CSXT fuel surcharge program.

WT \$28 Per Barrel Fuel Surcharge (Program in effect 4Q01 through 2Q03)

The fuel surcharge is applicable when the WTI price per barrel exceeds the \$28 per barrel trigger level for thirty (30) consecutive days as reported in the *Wall Street Journal*. The primary price trigger was set at \$28 per barrel and a 2% surcharge applied to the rail rate. For each five dollar per barrel increment sustained for thirty (30) consecutive days, the surcharge increases an additional 2%. The surcharge remains in place until the WTI price per barrel drops below the trigger level for thirty (30) consecutive days.

WTI \$23 Per Barrel Fuel Surcharge (Program in effect 3Q03 through 1Q04)

The CSXT changed their West Texas Intermediate Crude Oil (WTI) \$28 per barrel surcharge mechanisms to the WTI \$23 per barrel methodology in June 2003. The new fuel surcharge trigger mechanism was also revised. Under the new system a 0.4% increase is initiated at price levels above \$23.00 per barrel. An additional 0.4% fuel surcharge is imposed with each \$1.00 increase in the price per barrel. In addition, the surcharges are now applied based on the monthly average WTI prices. Prior to this, the WTI price had to remain above the prescribed level for thirty (30) consecutive days in order to trigger surcharges. This mechanical change expedites the flow of cash because it is initiated at lower levels and it enables the carriers to collect when oil prices increase despite wide variances in day to day prices. There is a two month lag between the survey month for the WTI price and the month the \$23 WTI fuel surcharge impacts the rate for a movement.

Support for Values in CSXT \$28 and \$23 Per Barrel Workpaper

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Total	Fuel	Adjusted	Total	Total	Average	Average	Total Fuel
	<u>Revenue</u>	<u>Surcharge</u>	<u>Revenue</u>	<u>Fuel Expense</u>	<u>Carloads</u>	<u>Rev/Car</u>	<u>Adjusted Rev/Car</u>	<u>Exp/Car</u>
			<u>C1 + (1+C2)</u>			<u>(C1 ÷ C5)</u>	<u>(C3 ÷ C5)</u>	<u>(C4 ÷ C5)</u>
4Q01	\$1,499,000,000			\$117,000,000	1,774,000	\$845		\$65.95
1Q02	\$1,486,000,000	0.00%	\$1,486,000,000	\$104,000,000	1,698,000	\$875	\$875	\$61.25
2Q02	\$1,538,000,000	0.00%	\$1,538,000,000	\$112,000,000	1,810,000	\$850	\$850	\$61.88
3Q02	\$1,473,000,000	0.00%	\$1,473,000,000	\$109,000,000	1,812,000	\$813	\$813	\$60.15
4Q02	\$1,506,000,000	1.19%	\$1,488,355,438	\$124,000,000	1,771,000	\$850	\$840	\$70.02
1Q03	\$1,531,000,000	1.43%	\$1,509,436,620	\$158,000,000	1,748,000	\$876	\$864	\$90.39
2Q03	\$1,573,000,000	2.13%	\$1,540,143,603	\$136,000,000	1,847,000	\$852	\$834	\$73.63
3Q03	\$1,510,000,000	2.93%	\$1,466,968,912	\$132,000,000	1,821,000	\$829	\$806	\$72.49
4Q03	\$1,568,000,000	3.07%	\$1,521,345,408	\$140,000,000	1,867,000	\$840	\$815	\$74.99
1Q04	\$1,605,000,000	4.13%	\$1,541,293,214	\$154,000,000	1,824,000	\$880	\$845	\$84.43

C3: Revenue without fuel surcharge revenue.

C6: Revenue per car without fuel surcharge revenue.

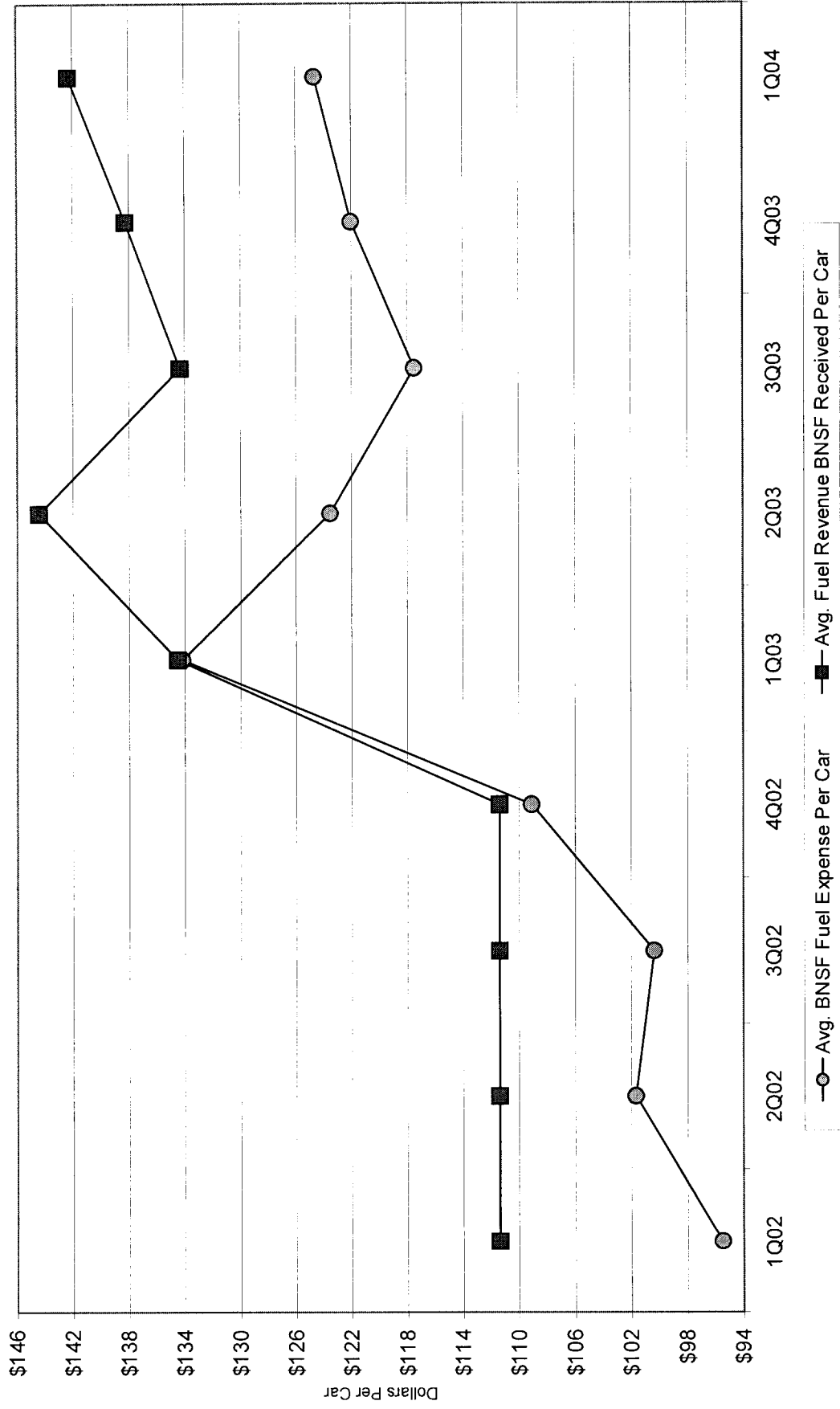
Support for CSX Transportation Fuel Revenue and Expense Per Ton Mile

	(1)	(2)	(3)	(4)	(5)	(6)
	Revenue	Fuel	Fuel	Total	Total	Difference In
	<u>Ton Miles</u>	<u>Expense</u>	Expense Per	Fuel Revenue	Fuel Revenue	Fuel Revenue
			Revenue	Total	Per Revenue	& Expense
			Ton Mile	(C10 Calculation Sheet)	Ton Mile	Per Ton Mile
			<u>(C2 ÷ C1)</u>		<u>(C4 ÷ C1)</u>	<u>(C5 - C3)</u>
1Q02	\$56,400,000,000	104,000,000	0.00184	\$111,987,599	0.00199	0.00014
2Q02	\$57,900,000,000	112,000,000	0.00193	\$119,374,295	0.00206	0.00013
3Q02	\$56,900,000,000	109,000,000	0.00192	\$119,506,201	0.00210	0.00018
4Q02	\$57,000,000,000	124,000,000	0.00218	\$134,446,704	0.00236	0.00018
1Q03	\$57,000,000,000	158,000,000	0.00277	\$136,848,611	0.00240	-0.00037
2Q03	\$58,500,000,000	136,000,000	0.00232	\$154,670,940	0.00264	0.00032
3Q03	\$58,300,000,000	132,000,000	0.00226	\$163,130,863	0.00280	0.00053
4Q03	\$59,400,000,000	140,000,000	0.00236	\$169,788,189	0.00286	0.00050
1Q04	\$60,100,000,000	154,000,000	0.00256	\$184,004,419	0.00306	0.00050

	Fuel Over-	Fuel Over-	Fuel Over-
	Recovery on 90	Recovery on 90	Recovery on 90
	Ton, 500 Mile	Ton, 1000	Ton, 2000
	<u>Movement</u>	<u>Movement</u>	<u>Movement</u>
1Q02	\$6.373	\$12.746	\$25.492
2Q02	\$5.731	\$11.463	\$22.925
3Q02	\$8.309	\$16.618	\$33.236
4Q02	\$8.247	\$16.495	\$32.990
1Q03	-\$16.698	-\$33.397	-\$66.794
2Q03	\$14.362	\$28.725	\$57.449
3Q03	\$24.029	\$48.058	\$96.116
4Q03	\$22.567	\$45.134	\$90.267
1Q04	\$22.466	\$44.932	\$89.863

Columns 3, 5 and 6 are on a per dollar basis, which means that an amount of 0.0003 represents three-tenths of a mill per revenue ton mile or three one-hundreds of a cent per revenue ton mile.

BNSF Average Fuel Cost Per Car Versus the Average Fuel Revenue BNSF Receives Per Car



* Average fuel revenue received includes base fuel cost and the fuel surcharge.
Average amount assumes all movements are subject to the surcharge.

Burlington Northern Santa Fe (BNSF) Calculations

Details on Revenue from BNSF \$1.25 Per Gallon Fuel Surcharge Versus BNSF's Actual Fuel Expenditures

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Date	Fuel Expense	Carloads	Fuel Exp/Car	Avg Rate/Car without Surcharge	Avg Fuel Surcharge/Car	Avg Fuel Revenue/Car	Difference in Fuel Rev & Exp Per Car	Total from Surcharge	Total Fuel Revenue	Difference in Fuel Rev & Exp	% Change Fuel Expense Per Car	% Change in Fuel Surcharge Rev/Car
			(C1+C2)	C7 Worksheet	(C4 x C5)	(C6 + 111.38)	(C7 - C3)	(C6 x C2)	(C7 x C2)	(C10 - C1)	(C3 + 111.38)	(C7 + 111.38)
4Q01	\$230,000,000	2,065,000	\$111.38	\$1,122	\$0.00	\$111.38	\$15.89	\$0	\$214,629,540	\$30,629,540	-14.3%	0.0%
1Q02	\$184,000,000	1,927,000	\$95.49	\$1,084	\$0.00	\$111.38	\$9.71	\$0	\$226,769,976	\$19,769,976	-8.7%	0.0%
2Q02	\$207,000,000	2,036,000	\$101.67	\$1,084	\$0.00	\$111.38	\$11.01	\$0	\$238,576,271	\$23,576,271	-9.9%	0.0%
3Q02	\$215,000,000	2,142,000	\$100.37	\$1,077	\$0.00	\$111.38	\$2.30	\$0	\$231,782,082	\$4,782,082	-2.1%	0.0%
4Q02	\$227,000,000	2,081,000	\$109.08	\$1,106	\$0.00	\$111.38	\$0.33	\$47,228,385	\$274,666,642	\$666,642	20.5%	20.8%
1Q03	\$274,000,000	2,042,000	\$134.18	\$1,067	\$23.13	\$134.51	\$20.92	\$70,413,570	\$307,541,900	\$44,541,900	10.9%	29.7%
2Q03	\$263,000,000	2,129,000	\$123.53	\$1,044	\$33.07	\$144.45	\$16.84	\$50,791,191	\$297,275,452	\$37,275,452	5.5%	20.6%
3Q03	\$260,000,000	2,213,000	\$117.49	\$1,059	\$22.95	\$134.33	\$16.23	\$60,780,488	\$312,722,376	\$36,722,376	9.5%	24.1%
4Q03	\$276,000,000	2,262,000	\$122.02	\$1,075	\$26.87	\$138.25	\$17.65	\$68,220,421	\$313,925,022	\$38,925,022	11.9%	27.8%
1Q04	\$275,000,000	2,206,000	\$124.66	\$1,091	\$30.92	\$142.31						

Total

2Q03-1Q04 \$1,074,000,000

Total 2Q03-1Q04 \$1,231,464,750

Excess Revenue \$157,464,750

C1: Source - BNSF Quarterly SEC filing.

C2: Source - BNSF Quarterly SEC filing.

C4: Source - Fuel surcharge on \$28 Per Barrel Fuel Surcharge Program from Oct 2001 through Mar. 2004.

C7: Includes fuel cost/car in 4Q01, plus fuel surcharge revenue on average rate.

C9: Assumes all movements use the BNSF fuel surcharge program.

WTI \$1.25 Per Gallon On-Highway Fuel Surcharge (Program in effect total time period)

The basis for the application of the On-Highway \$1.25 per gallon fuel surcharge is the Department of Energy's On-Highway Diesel Fuel Price (U.S. Average). The surcharge is triggered when the average for a particular month equals or exceeds \$1.25 per gallon. For every subsequent \$0.05 increase in the price per gallon above \$1.25 an additional 0.5% increment is added to the surcharge rate. There is a two month lag between the survey month for diesel fuel prices and when they impact the fuel surcharge. The On-Highway \$1.25 per gallon surcharge replaced the \$1.35 per gallon surcharge in early 2003.

Support for Values in BNSF \$1.25 Per Gallon Workpaper

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Total	Fuel	Adjusted	Total	Total	Average	Average	Total Fuel
	Revenue	Surcharge	Revenue	Fuel Expense	Carloads	Rev/Car	Adjusted Rev/Car	Exp/Car
			$C1 \div (1+C2)$			$(C1 + C5)$	$(C3 \div C5)$	$(C4 \div C5)$
4Q01	\$2,301,000,000			\$230,000,000	2,065,000	\$1,114		\$111.38
1Q02	\$2,163,000,000	0.00%	\$2,163,000,000	\$184,000,000	1,927,000	\$1,122	\$1,122	\$95.49
2Q02	\$2,207,000,000	0.00%	\$2,207,000,000	\$207,000,000	2,036,000	\$1,084	\$1,084	\$101.67
3Q02	\$2,308,000,000	0.00%	\$2,308,000,000	\$215,000,000	2,142,000	\$1,077	\$1,077	\$100.37
4Q02	\$2,301,000,000	0.00%	\$2,301,000,000	\$227,000,000	2,081,000	\$1,106	\$1,106	\$109.08
1Q03	\$2,227,000,000	2.17%	\$2,179,771,615	\$274,000,000	2,042,000	\$1,091	\$1,067	\$134.18
2Q03	\$2,294,000,000	3.17%	\$2,223,586,430	\$263,000,000	2,129,000	\$1,078	\$1,044	\$123.53
3Q03	\$2,395,000,000	2.17%	\$2,344,208,809	\$260,000,000	2,213,000	\$1,082	\$1,059	\$117.49
4Q03	\$2,492,000,000	2.50%	\$2,431,219,512	\$276,000,000	2,262,000	\$1,102	\$1,075	\$122.02
1Q04	\$2,476,000,000	2.83%	\$2,407,779,579	\$275,000,000	2,206,000	\$1,122	\$1,091	\$124.66

C3: Revenue without fuel surcharge revenue.

C6: Revenue per car without fuel surcharge revenue.

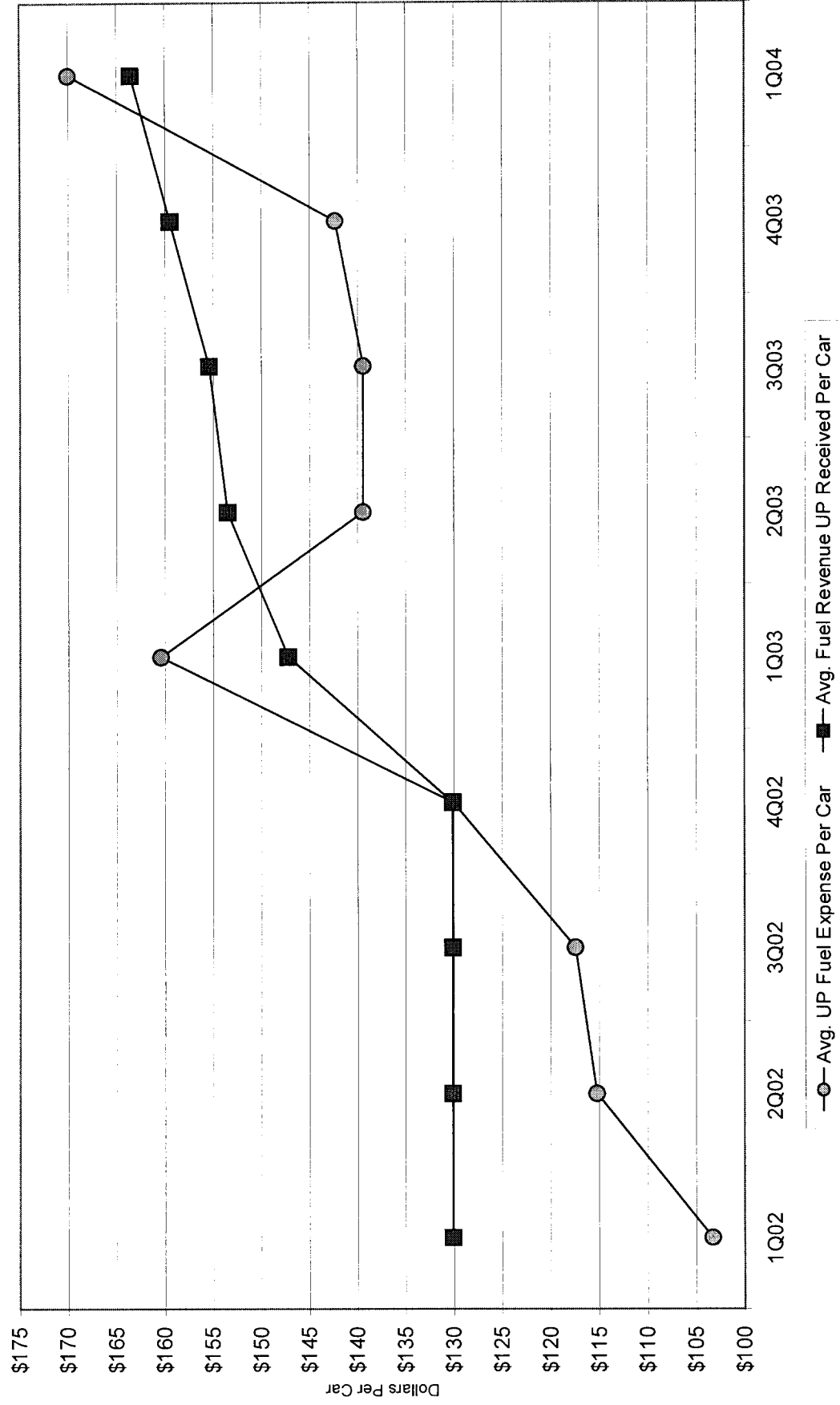
Support for Burlington Northern Santa Fe Fuel Revenue and Expense Per Ton Mile

	(1) Revenue Ton Miles	(2) Fuel Expense	(3) Fuel Expense Per Revenue Ton Mile (C2 ÷ C1)	(4) Total Fuel Revenue (C10 Calculation Sheet)	(5) Total Fuel Revenue Per Revenue Ton Mile (C4 ÷ C1)	(6) Difference In Fuel Revenue & Expense Per Ton Mile (C5 - C3)
1Q02	\$120,122,000,000	184,000,000	0.00153	\$214,629,540	0.00179	0.00025
2Q02	\$120,123,000,000	207,000,000	0.00172	\$226,769,976	0.00189	0.00016
3Q02	\$124,547,000,000	215,000,000	0.00173	\$238,576,271	0.00192	0.00019
4Q02	\$125,442,000,000	227,000,000	0.00181	\$231,782,082	0.00185	0.00004
1Q03	\$120,899,000,000	274,000,000	0.00227	\$274,666,642	0.00227	0.00001
2Q03	\$124,465,000,000	263,000,000	0.00211	\$307,541,900	0.00247	0.00036
3Q03	\$128,549,000,000	260,000,000	0.00202	\$297,275,452	0.00231	0.00029
4Q03	\$134,287,000,000	276,000,000	0.00206	\$312,722,376	0.00233	0.00027
1Q04	\$134,284,000,000	275,000,000	0.00205	\$313,925,022	0.00234	0.00029

	Fuel Over- Recovery on 90 Ton, 500 Mile Movement	Fuel Over- Recovery on 90 Ton, 1000 Mile Movement	Fuel Over- Recovery on 90 Ton, 2000 Mile Movement
1Q02	\$11.474	\$22.949	\$45.898
2Q02	\$7.406	\$14.812	\$29.625
3Q02	\$8.518	\$17.037	\$34.073
4Q02	\$1.715	\$3.431	\$6.862
1Q03	\$0.248	\$0.496	\$0.993
2Q03	\$16.104	\$32.208	\$64.416
3Q03	\$13.049	\$26.097	\$52.195
4Q03	\$12.306	\$24.612	\$49.223
1Q04	\$13.044	\$26.088	\$52.177

Columns 3, 5 and 6 are on a per dollar basis, which means that an amount of 0.0003 represents three-tenths of a mill per revenue ton mile or three one-hundredths of a cent per revenue ton mile.

UP Average Fuel Cost Per Car Versus the Average Fuel Revenue UP Receives Per Car



* Average fuel revenue received includes base fuel cost and the fuel surcharge.
Average amount assumes all movements are subject to the surcharge.

Union Pacific (UP) Calculations

Details on Revenue from UP \$1.35 Per Gallon and \$28 Per Barrel Fuel Surcharge Versus UP's Actual Fuel Expenditures

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Date	Fuel Expense	Carloads	Fuel Exp/Car	Avg Rate/Car without Surcharge	Avg Fuel Surcharge/Car	Avg Fuel Revenue/Car	Difference in Fuel Rev & Exp Per Car	Total from Surcharge	Total Fuel Revenue	Difference in Fuel Rev & Exp	% Change Fuel Expense Per Car	% Change in Fuel Surcharge Rev/Car
			(C1+C2)	C7 Worksheet	(C4 x C5)	(C6 + 130.11)	(C7 - C3)	(C6 x C2)	(C7 x C2)	(C10 - C1)	(C3 + 130.11)	(C7 + 130.11)
4Q01	\$293,000,000	2,252,000	\$130.11	\$1,170	\$0.00	\$130.11	\$26.80	\$0	\$283,372,114	\$58,372,114	-20.6%	0.0%
1Q02	\$225,000,000	2,178,000	\$103.31	\$1,160	\$0.00	\$130.11	\$14.89	\$0	\$302,627,886	\$34,627,886	-11.4%	0.0%
2Q02	\$268,000,000	2,326,000	\$115.22	\$1,156	\$0.00	\$130.11	\$12.68	\$0	\$306,921,403	\$29,921,403	-9.7%	0.0%
3Q02	\$277,000,000	2,359,000	\$117.42	\$1,186	\$0.00	\$130.11	\$0.04	\$0	\$295,081,705	\$81,705	0.0%	0.0%
4Q02	\$295,000,000	2,268,000	\$130.07	\$1,171	\$17.10	\$147.21	-\$13.23	\$37,522,528	\$322,976,347	(\$29,023,653)	23.3%	13.1%
1Q03	\$352,000,000	2,194,000	\$160.44	\$1,170	\$23.39	\$153.50	\$14.09	\$54,196,078	\$355,653,006	\$32,653,006	7.1%	18.0%
2Q03	\$323,000,000	2,317,000	\$139.40	\$1,169	\$25.33	\$155.44	\$16.02	\$59,952,692	\$367,914,947	\$37,914,947	7.2%	19.5%
3Q03	\$330,000,000	2,367,000	\$139.42	\$1,175	\$29.37	\$159.48	\$17.16	\$69,341,463	\$376,523,080	\$40,523,080	9.4%	22.6%
4Q03	\$336,000,000	2,361,000	\$142.31	\$1,180	\$33.44	\$163.55	-\$6.47	\$76,513,776	\$374,197,613	(\$14,802,387)	30.7%	25.7%
1Q04	\$389,000,000	2,288,000	\$170.02									

Total
2Q03-1Q04 \$1,378,000,000
Total 2Q03-1Q04 \$1,474,288,646
Excess Revenue \$96,288,646

C1: Source - UP Quarterly SEC filing.

C2: Source - UP Quarterly SEC filing.

C4: Source - Fuel surcharge on \$1.35 Per Gallon and \$28 Per Barrel Fuel Surcharge Program from Oct. 2001 through Mar. 2004.

C7: Includes fuel cost/car in 4Q01, plus fuel surcharge revenue on average rate.

C9: Assumes all movements use the UP fuel surcharge program.

WTI \$28 Per Barrel Fuel Surcharge (Program implemented in November 2002)

The fuel surcharge is applicable when the WTI price per barrel exceeds the \$28 per barrel trigger level for thirty (30) consecutive days as reported in the *Wall Street Journal*. The primary price trigger was set at \$28 per barrel and a 2% surcharge applied to the rail rate. For each five dollar per barrel increment sustained for thirty (30) consecutive days, the surcharge increases an additional 2%. The surcharge remains in place until the WTI price per barrel drops below the trigger level for thirty (30) consecutive days.

On-Highway \$1.35 Per Gallon Fuel Surcharge (Program implemented June 2003)

The \$1.35 per gallon surcharge is very similar to the \$1.25 per gallon surcharges, it just has a higher trigger threshold. The surcharge is triggered when the average for a particular month equals or exceeds \$1.35 per gallon. A 1.5% increase is applied to rail rates two months after the \$1.35 threshold is met. For every subsequent \$0.05 increase in the price per gallon above \$1.35 an additional 0.5% increment is added to the surcharge rate.

Support for Values in UP \$1.35 Per Gallon & \$28 Per Barrel Workpaper

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Total	Fuel	Adjusted	Total	Total	Average	Average	Total Fuel
	<u>Revenue</u>	<u>Surcharge</u>	<u>Revenue</u>	<u>Fuel Expense</u>	<u>Carloads</u>	<u>Rev/Car</u>	<u>Adjusted</u>	<u>Exp/Car</u>
			<u>C1 ÷ (1+C2)</u>			<u>(C1 ÷ C5)</u>	<u>Rev/Car</u>	<u>(C4 ÷ C5)</u>
4Q01	\$2,618,000,000			\$293,000,000	2,252,000	\$1,163		\$130.11
1Q02	\$2,548,000,000	0.00%	\$2,548,000,000	\$225,000,000	2,178,000	\$1,170	\$1,170	\$103.31
2Q02	\$2,699,000,000	0.00%	\$2,699,000,000	\$268,000,000	2,326,000	\$1,160	\$1,160	\$115.22
3Q02	\$2,726,000,000	0.00%	\$2,726,000,000	\$277,000,000	2,359,000	\$1,156	\$1,156	\$117.42
4Q02	\$2,690,000,000	0.00%	\$2,690,000,000	\$295,000,000	2,268,000	\$1,186	\$1,186	\$130.07
1Q03	\$2,607,000,000	1.46%	\$2,569,477,472	\$352,000,000	2,194,000	\$1,188	\$1,171	\$160.44
2Q03	\$2,764,000,000	2.00%	\$2,709,803,922	\$323,000,000	2,317,000	\$1,193	\$1,170	\$139.40
3Q03	\$2,827,000,000	2.17%	\$2,767,047,308	\$330,000,000	2,367,000	\$1,194	\$1,169	\$139.42
4Q03	\$2,843,000,000	2.50%	\$2,773,658,537	\$336,000,000	2,361,000	\$1,204	\$1,175	\$142.31
1Q04	\$2,777,000,000	2.83%	\$2,700,486,224	\$389,000,000	2,288,000	\$1,214	\$1,180	\$170.02

C3: Revenue without fuel surcharge revenue.

C6: Revenue per car without fuel surcharge revenue.

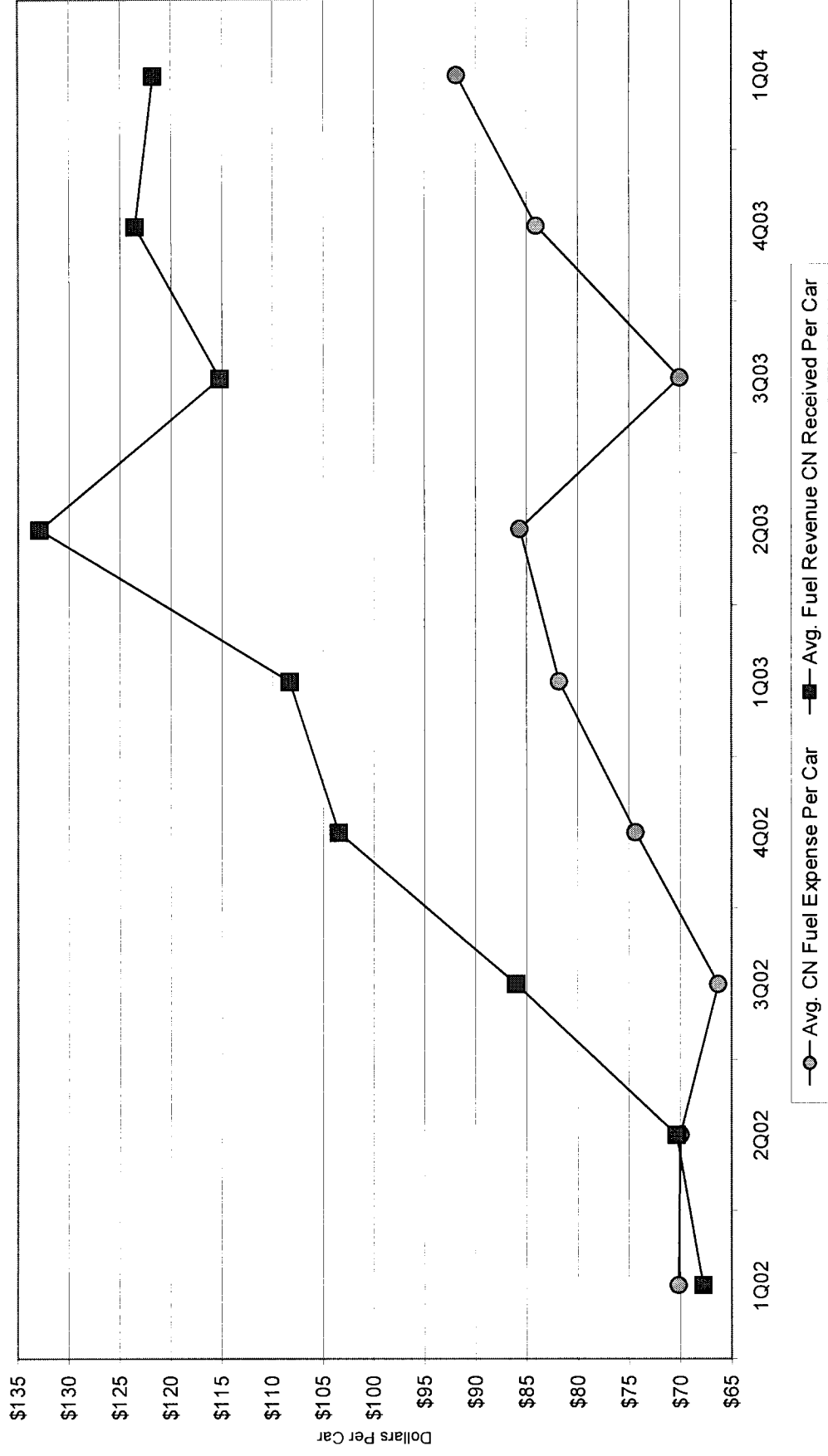
Support for Union Pacific Fuel Revenue and Expense Per Ton Mile

	(1)	(2)	(3)	(4)	(5)	(6)
	Revenue	Fuel	Fuel	Total	Total	Difference In
	Ton Miles	Expense	Expense Per	Fuel Revenue	Fuel Revenue	Fuel Revenue
			Revenue		Per Revenue	& Expense
			Ton Mile		Ton Mile	Per Ton Mile
			(C2 ÷ C1)	(C10 Calculation Sheet)	(C4 ÷ C1)	(C5 - C3)
1Q02	\$127,000,000,000	225,000,000	0.00177	\$283,372,114	0.00223	0.00046
2Q02	\$129,000,000,000	268,000,000	0.00208	\$302,627,886	0.00235	0.00027
3Q02	\$131,500,000,000	277,000,000	0.00211	\$306,921,403	0.00233	0.00023
4Q02	\$131,200,000,000	295,000,000	0.00225	\$295,081,705	0.00225	0.00000
1Q03	\$126,400,000,000	352,000,000	0.00278	\$322,976,347	0.00256	-0.00023
2Q03	\$132,300,000,000	323,000,000	0.00244	\$355,653,006	0.00269	0.00025
3Q03	\$137,000,000,000	330,000,000	0.00241	\$367,914,947	0.00269	0.00028
4Q03	\$137,200,000,000	336,000,000	0.00245	\$376,523,080	0.00274	0.00030
1Q04	\$134,600,000,000	389,000,000	0.00289	\$374,197,613	0.00278	-0.00011

	Fuel Over-	Fuel Over-	Fuel Over-
	Recovery on	Recovery on	Recovery on
	90 Ton, 1000	90 Ton, 1000	90 Ton, 2000
	Mile	Mile	Mile
	<u>Movement</u>	<u>Movement</u>	<u>Movement</u>
1Q02	\$20.683	\$41.366	\$82.732
2Q02	\$12.079	\$24.159	\$48.318
3Q02	\$10.239	\$20.479	\$40.957
4Q02	\$0.028	\$0.056	\$0.112
1Q03	-\$10.333	-\$20.666	-\$41.331
2Q03	\$11.106	\$22.213	\$44.426
3Q03	\$12.454	\$24.908	\$49.815
4Q03	\$13.291	\$26.582	\$53.164
1Q04	-\$4.949	-\$9.898	-\$19.795

Columns 3, 5 and 6 are on a per dollar basis, which means that an amount of 0.0003 represents three-tenths of a mill per revenue ton mile or three one-hundredths of a cent per revenue ton mile.

**CN Average Fuel Cost Per Car Versus
the Average Fuel Revenue CN Receives Per Car**
(Amounts are in U.S. Dollars)



* Average fuel revenue received includes base fuel cost and the fuel surcharge.
Average amount assumes all movements are subject to the surcharge.

Canadian National (CN) Calculations
Details on Revenue from CN \$24 Per Barrel Fuel Surcharge Versus CN's Actual Fuel Expenditures
(in U.S. Dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Total Fuel Expense/Car in U.S. \$ (C11 Worksheet)	Base Fuel Revenue in U.S. \$ (108.24 + C9 Worksheet)	Surcharge	Avg Rate/Car without Surcharge Revenue in U.S. \$ C10 Worksheet	Avg Fuel Surcharge/Car (C4 x C5)	Avg Fuel Revenue/Car in U.S. \$ (C6 + C3)	Difference in Fuel Rev & Exp Per Car in U.S. \$ (C7 - C2)	Total from Surcharge in U.S. \$ (C6 x C1)	Total Fuel Revenue in U.S. \$ (C7 x C1)	Difference in Fuel Rev & Exp in U.S. \$ (C10-C12 Worksheet)	% Change Fuel Expense Per Car (C2 + C3)	% Change in Fuel Surcharge Rev/Car (C6 + C3)
Date	Cardloads											
4Q01	1,007,000	\$68.31										
1Q02	999,000	\$70.18	0.00%	\$910	\$0.00	\$67.76	-\$2.42	\$0	\$67,692,350	(\$1,097,620)	3.6%	0.0%
2Q02	1,059,000	\$69.98	0.00%	\$920	\$0.00	\$70.37	\$0.38	\$0	\$74,519,672	\$4,405,737	-0.5%	0.0%
3Q02	1,043,000	\$66.29	2.00%	\$868	\$17.35	\$86.01	\$19.72	\$18,097,443	\$89,711,204	\$15,598,604	-3.4%	25.3%
4Q02	1,063,000	\$74.35	4.00%	\$862	\$34.48	\$103.47	\$29.12	\$36,649,103	\$109,984,992	\$40,841,567	7.8%	50.0%
1Q03	1,038,000	\$81.82	4.00%	\$898	\$35.90	\$108.29	\$26.47	\$37,268,966	\$112,403,127	\$33,368,539	13.0%	49.6%
2Q03	1,052,000	\$85.68	6.00%	\$914	\$54.86	\$132.90	\$47.23	\$57,711,197	\$139,816,048	\$54,887,045	9.8%	70.3%
3Q03	1,034,000	\$70.03	4.00%	\$920	\$36.82	\$115.19	\$45.17	\$38,070,713	\$119,111,595	\$28,980,364	-10.7%	47.0%
4Q03	1,068,000	\$84.07	4.00%	\$1,012	\$40.46	\$123.53	\$39.46	\$43,212,780	\$131,929,098	\$59,519,550	1.2%	48.7%
1Q04	1,002,000	\$81.65	4.00%	\$1,003	\$40.10	\$121.75	\$29.91	\$40,182,975	\$121,995,759	\$32,205,270	12.5%	49.1%
Total 2Q03-1Q04									\$512,852,499			
Excess Revenue									\$168,492,063			

C1: Source - CN Quarterly SEC filing.
C2: Source - CN Quarterly SEC filing.
C3: Source - Fuel surcharge on \$24 Per Barrel Fuel Surcharge Program from Oct. 2001 through Mar. 2004.
C4: Revenue per car dropped in 4Q02 due to a drop in exchange rate.
C6: Includes fuel cost/car in 4Q01, plus fuel surcharge revenue on average rate.
C8: Assumes all movements use the CN fuel surcharge program.

WTI \$24 Per Barrel Fuel Surcharge (Program in effect total time period).
This quarterly fuel surcharge is applicable when the WTI price per barrel exceeds the \$24 per barrel trigger level for a calendar quarter. The surcharge applicable to the rail rate is as follows:

West TX Crude Oil (Price Per Barrel \$US)	
\$24.00 - \$26.99	Surcharge
\$27.00 - \$31.99	2.00%
\$32.00 - \$36.99	4.00%
\$37.00 - \$41.99	6.00%
Ea. \$5 US increase thereafter	8.00%
	Additional 2%

(Canadian Dollars are Converted to U.S. Dollars)

C1, C3, C4, C6 & C7: In Canadian Dollars
C9, C10 & C11: In U.S. Dollars
C3: Revenue without fuel surcharge revenue.
C6: Revenue per car without fuel surcharge revenue.

Support for Canadian National Fuel Revenue and Expense Per Ton Mile

	(1)	(2)	(3)	(4)	(5)	(6)
			Fuel Expense Per Revenue Ton Mile in US \$	Total Fuel Revenue in US \$	Total Fuel Revenue Per Revenue Ton Mile in US \$	Difference In Fuel Revenue & Expense Per Ton Mile in US \$
	<u>Revenue Ton Miles</u>	<u>C12 Workpaper</u>	<u>(C2 ÷ C1)</u>	<u>(C10 Calculation Sheet)</u>	<u>(C4 ÷ C1)</u>	<u>(C5 - C3)</u>
1Q02	\$39,289,000,000	70,113,935	0.00178	\$67,692,350	0.00172	-0.00006
2Q02	\$40,332,000,000	74,112,599	0.00184	\$74,519,672	0.00185	0.00001
3Q02	\$39,460,000,000	69,143,425	0.00175	\$89,711,204	0.00227	0.00052
4Q02	\$40,795,000,000	79,034,588	0.00194	\$109,984,992	0.00270	0.00076
1Q03	\$39,912,000,000	84,929,003	0.00213	\$112,403,127	0.00282	0.00069
2Q03	\$39,830,000,000	90,131,231	0.00226	\$139,816,048	0.00351	0.00125
3Q03	\$39,936,000,000	72,409,548	0.00181	\$119,111,595	0.00298	0.00117
4Q03	\$44,039,000,000	89,790,489	0.00204	\$131,929,098	0.00300	0.00096
1Q04	\$41,774,000,000	92,029,168	0.00220	\$121,995,759	0.00292	0.00072

	Fuel Over- Recovery on 90 Ton, 500 Mile <u>Movement</u>	Fuel Over- Recovery on 90 Ton, 1000 Mile <u>Movement</u>	Fuel Over- Recovery on 90 Ton, 1000 Mile <u>Movement</u>
1Q02	-\$2.774	-\$5.547	-\$11.094
2Q02	\$0.454	\$0.908	\$1.817
3Q02	\$23.455	\$46.911	\$93.822
4Q02	\$34.141	\$68.281	\$136.563
1Q03	\$30.977	\$61.953	\$123.906
2Q03	\$56.134	\$112.268	\$224.536
3Q03	\$52.624	\$105.248	\$210.496
4Q03	\$43.058	\$86.116	\$172.233
1Q04	\$32.281	\$64.562	\$129.123

Columns 3, 5 and 6 are on a per dollar basis, which means that an amount of 0.0003 represents three-tenths of a mill per revenue ton mile or three one-hundreds of a cent per revenue ton mile.

EXHIBIT B

January 6, 2005

A PROPOSAL FOR A RAIL FUEL SURCHARGE BASED ON THE ACTUAL INCREASE IN FUEL COSTS

Introduction

For over two years, there have been extraordinary increases in fuel costs experienced by all petroleum fuel users, especially transportation providers, caused by forces well beyond their control. In response to this situation, the Class I rail carriers instituted fuel surcharges. The methodology for implementation of these surcharges was to apply an additional charge to the total freight charges from the carrier to the shipper based on the changes in a fuel price index selected by the carrier. This approach may have been undertaken partly because of its ease of application. The sponsors of this paper believe the use of fuel surcharge programs can be an appropriate method for transportation providers to recover these unanticipated increases in fuel costs. However, there has also been growing concern in the shipper community that the current fuel surcharge methodologies applied by the Class I rail carriers to individual shipments have, to a greater or lesser degree, exceeded recovery of changes in the cost of fuel and thus have become a method for enhancing revenue. Some railroads have separate surcharges for specific commodity groups such as intermodal, coal and carload, while others have a uniform charge.

National Grain and Feed Association (NGFA), The National Industrial Transportation League (NITL), The Fertilizer Institute (TFI) and The Forest Products Association of Canada (FPAC), have taken steps to analyze these concerns. Escalation Consultants, of Gaithersburg, MD, was engaged to analyze the fuel surcharge

methodology utilized by five Class I railroads. Their attached December 2004 Railroad Fuel Surcharge Study indicates that the fuel surcharge methodologies of these Class I railroads do not reflect merely the increase in fuel costs experienced by those carriers when applied to individual rail movements. The Study shows that, as the price of diesel fuel rises, existing surcharge methodologies produce additional revenue beyond the increase in fuel prices. On one carrier, fuel expense per car increased 5.4 percent between the 4th quarter of 2001 and the 1st quarter of 2004, while fuel surcharge revenue per car rose 47.5 percent in the same period. Moreover, because the carriers' fuel surcharge methodologies are all based on application of a percentage surcharge to the freight rate, higher rated commodities pay a higher fuel surcharge compared to commodities with lower transportation rates, even though the cost of fuel for the two movements may be the same.

An approach that more accurately reflects actual increases or decreases in fuel costs should be established. The sponsoring trade organizations have developed a cost-based rail fuel surcharge methodology, set forth in the attached document entitled "A Proposal for Cost-Based Rail Fuel Surcharges," based on publicly available data. Under that Proposal, a surcharge per carload would be developed and updated monthly from a diesel fuel price index relying on Department of Energy market price data. The proposed surcharge methodology would be based on loaded car-miles traveled, rather than as a percentage of freight charges, a change that would more closely reflect the actual burden of higher fuel costs on an individual movement.

Under a cost-based recovery approach, fuel surcharges would compensate carriers for their increased fuel costs without producing additional revenue from the surcharged

customer unrelated to fuel costs. The sponsoring trade organizations offer this Proposal for Cost-Based Rail Fuel Surcharges for consideration. As noted below, however, were additional data to be made available in a timely manner, alternative methodologies for determining cost-based fuel surcharges could be developed.

Analysis of Existing Fuel Surcharge Programs

Each Class I railroad uses an index to trigger the application of fuel surcharges and thereafter to adjust them periodically.¹ The indexes, and rules for their application, are published by each railroad in tariffs.² The two basic indexes used are West Texas Intermediate Crude Oil (CN, CSX, and NS) and the On-Highway Diesel Fuel price (UP and BNSF). Although fuel comprises only a part of a railroad's operating costs, each railroad applies its surcharge as a percentage of the entire freight rate for any given movement subject to the surcharge tariff, thus assessing a fuel surcharge against not just fuel costs, but against all operating expenses, overhead, and profit. While this rough-cut methodology might have been an expeditious approach to addressing the increasing fuel costs when the current fuel price increases began, it has failed to accurately track actual fuel cost increases, particularly as crude oil prices have skyrocketed.

The Study concludes that, generally speaking, the Class I railroads whose surcharges rely on the West Texas Intermediate Crude Oil price have realized additional revenue from the surcharges than have carriers utilizing the On-Highway Diesel Fuel

¹ The Railroad Fuel Surcharge Study examines the fuel surcharge methodology of the five largest Class I railroads; Burlington Northern and Santa Fe Railway Company ("BNSF"), Canadian National Railway Company ("CN"), CSX Transportation ("CSX"), Norfolk Southern Railway Company ("NS"), and Union Pacific Railroad Company ("UP"). This Paper focuses on the same five railroads.

² The tariff items are: BNSF Rules Book 6100-A; CN Freight Tariff 7400; CSX Tariff 8100; NS Conditions of Carriage #1-E, ; UP Tariff 6007-A.

price. See Railroad Fuel Surcharge Study, Table 1.³ However, on a system-wide basis, assuming that each railroad's fuel surcharge applied to all of its traffic, each of the five carriers would have recovered more from their fuel surcharge practices than they incurred in increased fuel expenses, especially between the second quarter of 2003 and the first quarter of 2004, when fuel prices increased more steeply than in earlier quarters, as the following table demonstrates.⁴

Table 1
Fuel Revenue Versus Fuel Expenses Between
Second Quarter 2003 and First Quarter 2004

	Fuel Revenue*	Fuel Expenses	Increase in Fuel Revenue Above Expenses
UP	\$1,474,288,646	\$1,378,000,000	\$96,288,646
CSXT	\$671,594,410	\$562,000,000	\$109,594,410
NS	\$547,303,462	\$383,000,000	\$164,303,462
BNSF	\$1,231,464,750	\$1,074,000,000	\$157,464,750
CN	\$512,852,499	\$344,360,436	\$168,492,063
TOTAL	\$4,437,503,768	\$3,741,360,436	\$696,143,331

* Fuel revenue assumes fuel surcharges apply to all rail movements.

Because it is probable that the carriers in fact apply fuel charges only selectively to certain traffic or shippers, it is more significant to note that the same observation applies to individual shipments; that is, with limited exceptions, the surcharge programs of the five carriers consistently result in over-recovery of fuel cost increases on an

³ The Railroad Fuel Surcharge Study examines fuel surcharge practices and results beginning with the first quarter of 2002 and extending through the first quarter of 2004. The base period for these studies is the final quarter of 2001, selected as the base period because it was the last quarter prior to activation of the indexes by rising oil prices.

⁴ Source: Railroad Fuel Surcharge Study, Table 4. As indicated in the Railroad Fuel Surcharge Study, the results there presented for most individual rail carriers are in all likelihood an understatement of their margin of fuel surcharge revenue over fuel costs. Most of the carriers apply their chosen fuel price index at different percentage levels to different commodity groups, such as carload freight, coal, and intermodal. Where a carrier has established more than one surcharge level, its surcharge percentage for carload traffic (versus coal or intermodal) is always the lowest. The lower carload fuel surcharge is the one utilized in the Railroad Fuel Surcharge Study.

individual movement basis. See Railroad Fuel Surcharge Study, Figure 2. The following table from the Study⁵ similarly demonstrates the extent to which the carriers' fuel surcharge methodologies produced per car compensation in excess of fuel cost increases.

Table 2
PERCENT CHANGE IN FUEL EXPENSE PER CAR VS.
FUEL SURCHARGE REVENUE PER CAR
 (4th Quarter 2001 to 1st Quarter 2004)⁶

	Fuel Expense Per Car	Fuel Surcharge Revenue Per Car
NS	5.4%	47.5%
CSXT	28.0%	53.0%
BNSF	11.9%	27.8%
UP	30.7%	25.7%
CN	12.5%	49.1%

The Railroad Fuel Surcharge Study relies on data as reported by the railroads to regulatory agencies and organizations, without adjustment. Thus, if an individual railroad hedges its fuel costs, and the results of that hedging are in that carrier's reported data, then the results shown in the Railroad Fuel Surcharge Study reflect the hedging practices of that carrier. The results of the Study suggest that some railroads have been more successful in reducing their net costs of fuel through hedging activities than have other railroads. Of course, hedging can have negative results, and increase net fuel costs. Nevertheless, the sponsors of this study believe that hedging is a prudent management practice and should not be considered in this analysis; additionally the hedging practices of each railroad are not uniformly made public.

⁵ Source: Railroad Fuel Surcharge Study, Table 3

⁶ Although the table above indicates that, during the first quarter of 2004, UP's fuel surcharge revenue per car had not increased to the same extent as its fuel expense per car, two things should be noted regarding UP. First, in almost all of the other quarters involved in the Railroad Fuel Surcharge Study, UP's fuel surcharge revenue per car did exceed its fuel costs, generally by more than \$13.00 per car. See *Id.*, Table 1. Second, by the first quarter of 2004, UP was immersed in severe service difficulties, which no doubt increased its operating expenses, including fuel costs per car.

Even though – indeed, perhaps because – it is not possible to determine from existing data how each railroad applies its fuel surcharge tariffs across commodity or shipper lines, it is appropriate to emphasize the disproportionate extent to which the surcharges produce additional revenue, rather than fuel increase reimbursement, when they are applied to individual shipments.⁷

The following tables illustrate how the carriers' fuel surcharge methodologies, by being applicable to freight rates; impose disproportionate and unfair fuel surcharge burdens on traffic paying the highest rates.

Table 3

Per Car Comparison of Fuel Surcharge Revenue on Shipments of the Same Size Moving Between Jamestown, ND and Longview, WA *

Commodity	Freight Charges	Fuel Surcharge
Corn	\$2,840	\$142
Soybeans	\$3,010	\$151
Wheat	\$4,241	\$212

*
Route: BNSF
Unit Size: Per Car of 54 Car Train
Freight Rates: Applicable August 2004
Fuel Surcharge Rate: 5% of revenue

There plainly is no greater cost for moving identical quantities of corn and wheat over identical routes for identical distances. Yet, because the freight rate on wheat is higher than the freight rate on corn between the same two points, and for no other reason, the wheat shipper is forced to make a greater fuel surcharge contribution than the corn shipper, as illustrated by Table 3. Table 4 provides another example of this same principle on the movement of various chemicals between the same points via the same

⁷ Where shipments move purely pursuant to tariffs, the fuel surcharge tariff provisions clearly are applicable. Where shipments move by contract, the contract may or may not incorporate fuel surcharge tariff provisions in addition to or in lieu of Rail Cost Adjustment Factor rate increases (which, themselves, have a fuel cost component) or negotiated annual rate increases.

rail carrier. Clearly, the additional fuel costs would be the same for each carload carried. Instead in this example the higher rated commodity bears a 141% higher fuel surcharge than the lowest rated commodity.

Table 4

Per Car Comparison of Fuel Surcharge Revenue on Shipments of the Same Size Moving Between Baltimore, MD and Chicago, IL *

Commodity	Freight Charges	Fuel Surcharge
Caustic Soda	\$2,035	\$252
Muriatic Acid	\$2,600	\$322
Chlorine	\$2,846	\$353
Monochlorobenzene	\$3,229	\$400
Perchlor	\$4,908	\$609

*
Route: CSXT
Unit Size: Tank Cars – 190,000 lbs
Freight Rates: Applicable December 2004
Fuel Surcharge Rate: 12.4% of revenue

Why a Cost-Based Fuel Surcharge Methodology is Necessary

If the stated objective of a "fuel surcharge" tariff is to recover the additional cost of railroad fuel brought about by unanticipated increases in the price of fuel that were not taken into account when the railroad priced its traffic, then it is clear that the present fuel surcharge methodologies of the Class I railroads do not achieve that goal and, instead, have become sources of additional revenue when applied to individual movements.

Fuel surcharges should be just that: mechanisms to recover unforeseen fuel cost increases. Railroads have ample opportunity to set and readjust freight rates, taking predictable fuel costs into account when they do so. Fuel surcharges should not serve as a revenue generation mechanism.

Believing that fuel surcharges should be confined to the recovery of only unusual fuels costs, the sponsoring trade organizations have developed the attached cost-based rail fuel surcharge methodology. It utilizes the market prices published by the Energy Information Administration of DOE for diesel fuel sold to "commercial and institutional consumers," and fairly reflects the actual spot market prices of the fuel that railroads are purchasing. It is a more appropriate index than either of the indices used by the Class I railroads, since the price of West Texas Intermediate Crude Oil is not a diesel fuel price index and the On-Highway Diesel Fuel prices include taxes and additional mark-ups.

The cost-based proposal uses as a base pricing period the fourth quarter of 2001, a period in which no surcharge was being applied. It uses a base price of \$.75 per gallon, the approximate wholesale market equivalent to the \$1.25 On-Highway Diesel Fuel price used by BNSF and UP. A Fuel Price Index would be developed on a monthly basis and applied to each carrier's loaded carloads, multiplied by the number of miles such cars are moved by the carrier, a factor readily available to shippers and carriers. This approach will (1) confine fuel surcharges to the recovery of actual fuel cost increases incurred over and above the base period,⁸ (2) eliminate the application of fuel surcharges to non-fuel items of overhead and to mark-ups, and (3) allow railroads and shippers to be aware of fuel surcharge amounts in advance of shipments, as at present. The cost-based proposal recognizes that hedging is a prudent management practice and will neither deter railroads from hedging and realizing benefits, or penalize customers for unfortunate hedging results. Thus, it treats hedging as it is now treated by the carriers.

⁸ Even this approach treats fuel surcharges generously, since freight rates that have been increased since the last quarter of 2001 presumably take into account higher fuel prices that have developed since that time.

The following table illustrates how the proposed cost-based surcharge would alter the present railroad approach to fuel surcharge assessments against individual shipments.

It is a restatement of Table 3 and Table 4.

Table 5

Per Car Comparison of a Cost Based Fuel Surcharge on Shipments of the Same Size Moving Between Jamestown, ND and Longview, WA *

Commodity	Freight Charges	Existing Surcharge	Proposed Cost-Based Surcharge
Corn	\$2,840	\$142	\$108
Soybeans	\$3,010	\$151	\$108
Wheat	\$4,241	\$212	\$108

*
Route: BNSF
Unit Size: Per Car of 54 Car Train
Freight Rates: Applicable August 2004
Mileage: 1499

Table 6

Per Car Comparison of Cost Based Fuel Surcharge on Shipments of the Same Size Moving Between Baltimore, MD and Chicago, IL *

Commodity	Freight Charges	Existing Surcharge	Proposed Cost Based Surcharge
Caustic Soda	\$2,035	\$252	\$83
Muriatic Acid	\$2,600	\$322	\$83
Chlorine	\$2,846	\$353	\$83
Monochlorobenzene	\$3,229	\$400	\$83
Perchlor	\$4,908	\$609	\$83

*
Route: CSXT
Unit Size: Tank Cars – 190,000 lbs
Freight Rates: Applicable December 2004
Mileage: 779 miles

Most importantly, a cost-based fuel surcharge program is fair because it allows railroads to continue to set freight rates through the application of market forces and con-

finer "fuel surcharges" to the recovery of fuel cost changes that were not anticipated when the market prices were established.

The sponsoring trade organizations recognize that it may be possible to develop alternative cost-based fuel surcharge methodologies for ready application to individual shipments, particularly if carriers would make timely publication of appropriate data for such purposes. However, because fuel surcharges are by self-definition a method to recover unusual, unanticipated costs, it is important that when a carrier elects to assess fuel surcharges against individual shipments, it require the targeted customers to pay no more than the unanticipated increase in fuel cost attributable to their shipments.

s:\mcd\surcharges.doc

EXHIBIT C

A Proposal for Cost-Based Rail Fuel Surcharges

-December 2004-

Problems with Existing Railroad Fuel Surcharge Formulas

Class I railroads are all currently using fuel surcharge formulas that have shortcomings, as demonstrated by the Railroad Fuel Surcharge Study, by Escalation Consultants, December 2004. The use of West Texas Intermediate (WTI) crude oil prices especially results in surcharges that far exceed actual fuel cost increases. This occurs in part because, as crude oil prices increase, wholesale diesel prices also increase, but at a slower rate. For example, comparing the average change in WTI prices and wholesale diesel prices from 2001 to the 2nd quarter of 2004, WTI crude oil price increased 50% while wholesale diesel prices increased only 38%. This lack of proportionality in price changes of WTI and actual diesel fuel prices becomes a more significant problem as crude oil prices escalate to higher levels.

A second problem inherent in both surcharge formulas of the railroads (the second formula being the on-highway or "O-H" diesel price) arises because the surcharge percentage is applied not to actual fuel costs, but to the rail rate revenue for the haul. The relationship between rail rates and fuel costs tend to vary widely across different movements, products and regions. This means that fuel surcharges applied to rail rates create large inequities among rail customers and commodities, and those inequities widen as the computed surcharge formulas escalate with upward trends in fuel market prices.

A More Equitable, Cost-Based Formula for Fuel Surcharges

In developing a surcharge formula that more accurately reflects the actual cost increases incurred for individual movements, data for such calculations need to be readily available. Given this consideration, an equitable fuel surcharge formula should have the following features:

- It should use a publicly available market price series, such as the U.S. diesel sold in wholesale markets to "commercial and institutional consumers" reported by the Energy Information Administration (EIA), Department of Energy (DOE). These EIA diesel prices more fairly reflect the actual spot market prices of the fuel that railroads are purchasing, rather than using a retail on-highway diesel price or WTI prices.
- It should use as a base pricing point for computing the surcharge index a period in which no surcharge was being applied. We would suggest the 4th quarter of 2001, the same basing point used in the Railroad Fuel Surcharge Study. Use of a base fuel price assumption of 75 cents per gallon for that quarter would be the approximate wholesale market equivalent to the \$1.25 on-highway diesel price used in BNSF and UP formulas (this retail price includes taxes and additional markups).

- It should compute an average system-wide surcharge per loaded car mile that would need to be assessed to recover market fuel price increases, under the assumption that fuel purchases are made 3 months in advance of usage. This will permit a 3-month lag in the impact of spot fuel prices on computed surcharges and will allow the carriers to continue to announce surcharges 60 days in advance of implementation.
- Concerning the impacts of individual carrier hedging practices on actual carrier fuel costs, an equitable fuel surcharge formula should be neutral, and not take into account hedging gains or losses. Some carriers appear to have done a very good job hedging fuel prices and have managed to keep actual fuel cost increases below spot market adjustments. Hedging is an internal business choice that assists in stabilizing the predictability of corporate net revenue, and hedging performance is dependent on decisions made by the railroad. Therefore, in our view, hedging gains should accrue to the railroad. Conversely, if there are hedging losses, the railroad should absorb those losses, and not try to recoup them with general rate increases.

Recommended Computation of Formula for Fuel Surcharges for Each Railroad

The computation of a cost-based rail fuel surcharge could be easily accomplished in two steps: (1) a railroad would calculate, once per month, a surcharge per loaded car mile for its system based upon EIA public wholesale diesel fuel price data, a \$.75 base price for diesel fuel in the 4th quarter of 2001, and its own average mileage (avg. length of haul); (2) the railroad would calculate the surcharge applicable to a particular shipment by applying the surcharge per car mile obtained in Step 1 to the actual car miles for the movement, an application that could be easily audited by the shipper.

Using publicly available data from the AAR, STB and individual carriers, the computed Fuel Cost/Carload in the base period (4th Quarter, 2001) would be as follows for the five carriers studied. These data are reported in attachments to Railroad Fuel Surcharge Study, and are computed by dividing total reported fuel cost for the quarter (inclusive of fuel used in all activities, including empty backhauls) by total revenue cars loaded in the period.

	<u>Fuel Cost per Carload</u>
BNSF	\$111.38
UP	\$130.11
CSX	\$65.95
NS	\$57.80
CN	\$68.31

Example of How Cost-Based Surcharge Formula Would be Applied to Individual Shipments of a Carrier:

In August 2004, a single loaded car is moved 1500 miles on the BNSF. The EIA wholesale price of diesel is \$1.224 in May 2004 (which is 3 months prior to August).

Step 1 (Calculated by Railroad For Its System Once Per Month)

Fuel Price Index for August 2004 = $(1.224/75) - 1 = 1.632 - 1 = .632$

Avg. Surcharge per Carload in August 2004 = $.632 \times 111.38 = \$70.39$

Avg. Surcharge per Loaded Car Mile, Aug 2004 = $\$70.39 / 982 \text{ (Avg. Mileage)} = 7.2 \text{ cents}$

Step 2 (Applied by Railroad and Audited by Shipper)

Applicable Surcharge for Shipment = $7.2 \text{ cents} \times 1500 \text{ actual car miles} = \108

It should be noted that under this formula the fuel surcharges per loaded car mile applicable for each carrier would vary, depending on fuel efficiency, ratio of average loaded miles to average empty miles, average haul length, and other factors specific to each carrier. This formula more fairly and accurately distributes the impact of higher market diesel prices among each railroad's surcharge-paying customers.

Observations Regarding the Proposed Cost-Based Fuel Surcharge Formula:

- On a system-wide basis, this surcharge formula appears to raise approximately the same amount of total revenue to compensate for fuel cost increases as the current UP and BNSF formulas. For other railroads (CNIC, NS, and CSX) that currently have fuel surcharges based upon WTI crude oil prices, the proposed cost-based fuel surcharge formula will result in lower actual fuel surcharges on shipments (particularly at extremely high crude oil prices above \$40/barrel), but such a cost-based fuel surcharge would in fact more accurately represent the actual market cost increase for fuel on individual shipments for these carriers.
- Because the surcharge percentage is applied to loaded car miles, rather than rail rates, it is more truly cost-based and equitable among rail customers. It avoids burdening high rate shippers with an inequitable share of cost impacts.
- The formula is based upon spot market prices for wholesale diesel, a price series that more closely relates to the diesel market in which the carriers actually purchase fuel. For this reason, it is easier for customers to understand and more transparent than existing formulas.
- This formula is neutral regarding hedging activities of carriers. Any hedging gains or losses accrue to the carrier.

EXHIBIT D

**Norfolk Southern
Revenue and Expenses***

	(1) Total Revenue	(2) Fuel Surcharge	(3) Adjusted Revenue C1 + (1+C2)	(4) Total Fuel Expense	(5) Total Carloads	(6) Average Rev/Car (C1 ÷ C5)	(7) Average Adjusted Rev/Car (C3 ÷ C5)	(8) Avg. Fuel Exp/Car (C4 ÷ C5)
4Q01	\$1,530,000,000	0.00%	\$1,530,000,000	\$96,000,000	1,661,000	\$921	\$921	\$57.80
1Q02	\$1,498,000,000	0.00%	\$1,498,000,000	\$81,000,000	1,606,000	\$933	\$933	\$50.44
2Q02	\$1,593,000,000	0.00%	\$1,593,000,000	\$84,000,000	1,717,000	\$928	\$928	\$48.92
3Q02	\$1,598,000,000	0.00%	\$1,598,000,000	\$81,000,000	1,736,000	\$921	\$921	\$46.66
4Q02	\$1,581,000,000	1.19%	\$1,562,407,353	\$96,000,000	1,662,000	\$951	\$940	\$57.76
1Q03	\$1,561,000,000	1.43%	\$1,538,992,409	\$104,000,000	1,648,000	\$947	\$934	\$63.11
2Q03	\$1,633,000,000	2.00%	\$1,600,980,392	\$93,000,000	1,736,000	\$941	\$922	\$53.57
3Q03	\$1,598,000,000	2.00%	\$1,566,666,667	\$86,000,000	1,722,000	\$928	\$910	\$49.94
4Q03	\$1,676,000,000	2.00%	\$1,643,137,255	\$97,000,000	1,755,000	\$955	\$936	\$55.27
1Q04	\$1,693,000,000	2.93%	\$1,644,807,150	\$107,000,000	1,757,000	\$964	\$936	\$60.90
2Q04	\$1,813,000,000	5.33%	\$1,721,207,979	\$106,000,000	1,875,200	\$967	\$918	\$56.53
3Q04	\$1,857,000,000	6.93%	\$1,736,601,423	\$98,000,000	1,904,700	\$975	\$912	\$51.45
4Q04	\$1,949,000,000	10.13%	\$1,769,678,480	\$138,000,000	1,927,100	\$1,011	\$918	\$71.61
1Q05	\$1,961,000,000	9.47%	\$1,791,423,821	\$150,000,000	1,863,100	\$1,053	\$962	\$80.51
2Q05	\$2,154,000,000	11.73%	\$1,927,810,047	\$162,000,000	1,947,900	\$1,106	\$990	\$83.17
3Q05	\$2,155,000,000	12.93%	\$1,908,211,063	\$189,000,000	1,992,300	\$1,082	\$958	\$94.87
4Q05	\$2,257,000,000	16.66%	\$1,934,681,982	\$226,000,000	1,983,200	\$1,138	\$976	\$113.96

C2: Quarterly fuel surcharges are determined by averaging the monthly carload surcharge for the 3 months comprising the quarter.

* Information compiled from Norfolk Southern filings with the Securities and Exchange Commission.

Norfolk Southern Railroad
Table 3: Change in Fuel Expense Per Car vs. Fuel Surcharge Revenue Per Car
(4th Quarter 2001 to 4th Quarter 2005)

	Fuel Expense Per Car *	Fuel Surcharge Revenue Per Car**
4Q01	0.00%	0.00%
1Q02	-12.74%	0.00%
2Q02	-15.36%	0.00%
3Q02	-19.28%	0.00%
4Q02	-0.07%	19.35%
1Q03	9.18%	23.10%
2Q03	-7.32%	31.91%
3Q03	-13.60%	31.48%
4Q03	-4.38%	32.40%
1Q04	5.36%	47.46%
2Q04	-2.20%	84.69%
3Q04	-10.98%	109.36%
4Q04	23.89%	160.99%
1Q05	39.29%	157.47%
2Q05	43.89%	200.90%
3Q05	64.13%	214.31%
4Q05	97.16%	281.18%

* Change in Fuel Expense Per Car is the fuel expense per car in 4Q 2005 minus fuel expense per car in 4Q 2001, divided by the fuel expense per car in 4Q 2001.

Fuel Surcharge Revenue Per Car is the Fuel Surcharge for 4Q 2005 times the Average Fuel Surcharge Revenue Per Car in 4Q 2005, divided by the Total Fuel Expenditure Per Car in 4Q 2001.

Norfolk Southern Railroad

Fuel Expense/Revenue Per Car 4th Quarter 2001 to 4th Quarter 2005

	Avg. Fuel Exp/Car	Change in Fuel Expense Per Car	% Change in Fuel Expense Per Car	Fuel Surch. Revenue Per Car	% Change in Fuel Revenue Per Car	Per Car Difference in Fuel Cost vs. Fuel Revenue from 4Q 01
4Q01	\$57.80	NA	0.00%	\$0.00	0.00%	NA
1Q02	\$50.44	(\$7.36)	-12.74%	\$0.00	0.00%	\$7.36
2Q02	\$48.92	(\$8.88)	-15.36%	\$0.00	0.00%	\$8.88
3Q02	\$46.66	(\$11.14)	-19.28%	\$0.00	0.00%	\$11.14
4Q02	\$57.76	(\$0.04)	-0.07%	\$11.19	19.35%	\$11.23
1Q03	\$63.11	\$5.31	9.18%	\$13.35	23.10%	\$8.05
2Q03	\$53.57	(\$4.23)	-7.32%	\$18.44	31.91%	\$22.67
3Q03	\$49.94	(\$7.86)	-13.60%	\$18.20	31.48%	\$26.05
4Q03	\$55.27	(\$2.53)	-4.38%	\$18.73	32.40%	\$21.25
1Q04	\$60.90	\$3.10	5.36%	\$27.43	47.46%	\$24.33
2Q04	\$56.53	(\$1.27)	-2.20%	\$48.95	84.69%	\$50.22
3Q04	\$51.45	(\$6.35)	-10.98%	\$63.21	109.36%	\$69.56
4Q04	\$71.61	\$13.81	23.89%	\$93.05	160.99%	\$79.24
1Q05	\$80.51	\$22.71	39.29%	\$91.02	157.47%	\$68.31
2Q05	\$83.17	\$25.37	43.89%	\$116.12	200.90%	\$90.75
3Q05	\$94.87	\$37.07	64.13%	\$123.87	214.31%	\$86.81
4Q05	\$113.96	\$56.16	97.16%	\$162.52	281.18%	\$106.37

CSXT
Revenue and Expenses*

	(1) Total Revenue	(2) Fuel Surcharge	(3) Adjusted Revenue C1 ÷ (1+C2)	(4) Total Fuel Expense	(5) Total Carloads	(6) Average Rev/Car (C1 ÷ C5)	(7) Average Adjusted Rev/Car (C3 ÷ C5)	(8) Avg. Fuel Exp/Car (C4 ÷ C5)
4Q01	1,499,000,000	0.00%	\$1,499,000,000	\$117,000,000	1,774,000	\$845	\$845	\$65.95
1Q02	1,486,000,000	0.00%	\$1,486,000,000	\$104,000,000	1,698,000	\$875	\$875	\$61.25
2Q02	1,538,000,000	0.00%	\$1,538,000,000	\$112,000,000	1,810,000	\$850	\$850	\$61.88
3Q02	1,473,000,000	0.00%	\$1,473,000,000	\$109,000,000	1,812,000	\$813	\$813	\$60.15
4Q02	1,506,000,000	1.19%	\$1,488,289,357	\$124,000,000	1,771,000	\$850	\$840	\$70.02
1Q03	1,531,000,000	1.43%	\$1,509,415,360	\$158,000,000	1,748,000	\$876	\$864	\$90.39
2Q03	1,573,000,000	2.13%	\$1,540,193,871	\$136,000,000	1,847,000	\$852	\$834	\$73.63
3Q03	1,510,000,000	2.93%	\$1,467,016,419	\$132,000,000	1,821,000	\$829	\$806	\$72.49
4Q03	1,568,000,000	3.07%	\$1,521,296,206	\$140,000,000	1,867,000	\$840	\$815	\$74.99
1Q04	1,605,000,000	4.13%	\$1,541,342,553	\$154,000,000	1,824,000	\$880	\$845	\$84.43
2Q04	1,997,000,000	5.33%	\$1,895,946,074	\$151,000,000	1,906,000	\$1,048	\$995	\$79.22
3Q04	1,943,000,000	6.93%	\$1,817,025,614	\$162,000,000	1,817,000	\$1,069	\$1,000	\$89.16
4Q04	2,495,000,000	10.13%	\$2,265,442,692	\$189,000,000	1,983,000	\$1,258	\$1,142	\$95.31
1Q05	2,108,000,000	9.47%	\$1,925,712,093	\$179,000,000	1,844,000	\$1,143	\$1,044	\$97.07
2Q05	2,166,000,000	11.73%	\$1,938,549,936	\$176,000,000	1,869,000	\$1,159	\$1,037	\$94.17
3Q05	2,125,000,000	12.93%	\$1,881,646,640	\$188,000,000	1,819,000	\$1,168	\$1,034	\$103.35
4Q05	2,219,000,000	16.66%	\$1,902,108,692	\$240,000,000	1,818,000	\$1,221	\$1,046	\$132.01

C2: Quarterly fuel surcharges are determined by averaging the monthly carload surcharge for the 3 months comprising the quarter.

* Information compiled from CSXT filings with the Securities and Exchange Commission.

CSXT

**Change in Fuel Expense Per Car vs. Fuel Surcharge Revenue Per Car
(4th Quarter 2001 to 4th Quarter 2005)**

	Fuel Expense Per Car *	Fuel Surcharge Revenue Per Car**
4Q01	0.00%	0.00%
1Q02	-7.13%	0.00%
2Q02	-6.17%	0.00%
3Q02	-8.79%	0.00%
4Q02	6.17%	15.16%
1Q03	37.06%	18.72%
2Q03	11.65%	26.93%
3Q03	9.91%	35.79%
4Q03	13.70%	37.93%
1Q04	28.02%	52.92%
2Q04	20.13%	80.39%
3Q04	35.19%	105.13%
4Q04	44.52%	175.53%
1Q05	47.19%	149.89%
2Q05	42.79%	184.53%
3Q05	56.71%	202.86%
4Q05	100.17%	264.30%

* Change in Fuel Expense Per Car is the fuel expense per car in 4Q 2005 minus fuel expense per car in 4Q 2001, divided by the fuel expense per car in 4Q 2001.

** Change in Fuel Surcharge Revenue Per Car is the Fuel Surcharge for 4Q 2005 times the Average Adjusted Revenue Per Car in 4Q 2005, divided by the Total Fuel Expenditure Per Car in 4Q 2001.

CSXT

Fuel Expense Per Car
4th Quarter 2001 to 4th Quarter 2005

	Avg. Fuel Exp/Car	Change in Fuel Expense Per Car	% Change in Fuel Expense Per Car	Fuel Surch. Revenue Per Car	% Change in Fuel Revenue Per Car	Per Car Difference in Fuel Cost vs. Fuel Revenue from 4Q 01
4Q01	\$65.95	NA	0.00%	\$0.00	0.00%	NA
1Q02	\$61.25	(\$4.70)	-7.13%	\$0.00	0.00%	\$4.70
2Q02	\$61.88	(\$4.07)	-6.17%	\$0.00	0.00%	\$4.07
3Q02	\$60.15	(\$5.80)	-8.79%	\$0.00	0.00%	\$5.80
4Q02	\$70.02	\$4.07	6.17%	\$10.00	15.16%	\$5.93
1Q03	\$90.39	\$24.44	37.06%	\$12.35	18.72%	(\$12.09)
2Q03	\$73.63	\$7.68	11.65%	\$17.76	26.93%	\$10.08
3Q03	\$72.49	\$6.54	9.91%	\$23.60	35.79%	\$17.07
4Q03	\$74.99	\$9.04	13.70%	\$25.02	37.93%	\$15.98
1Q04	\$84.43	\$18.48	28.02%	\$34.90	52.92%	\$16.42
2Q04	\$79.22	\$13.27	20.13%	\$53.02	80.39%	\$39.75
3Q04	\$89.16	\$23.21	35.19%	\$69.33	105.13%	\$46.12
4Q04	\$95.31	\$29.36	44.52%	\$115.76	175.53%	\$86.40
1Q05	\$97.07	\$31.12	47.19%	\$98.85	149.89%	\$67.73
2Q05	\$94.17	\$28.22	42.79%	\$121.70	184.53%	\$93.48
3Q05	\$103.35	\$37.40	56.71%	\$133.78	202.86%	\$96.38
4Q05	\$132.01	\$66.06	100.17%	\$174.31	264.30%	\$108.24

BNSF Railroad
Revenue and Expenses*

	(1) Total Revenue	(2) Fuel Surcharges	(3) Adjusted Revenue C1 ÷ (1+C2)	(4) Total Fuel Expense	(5) Total Carloads	(6) Average Rev/Car (C1 ÷ C5)	(7) Average Adjusted Rev/Car (C3 ÷ C5)	(8) Avg. Fuel Exp/Car (C4 ÷ C5)
4Q01	\$2,301,000,000	0.00%	\$2,301,000,000	\$230,000,000	2,065,000	\$1,114	\$1,114	\$111.38
1Q02	\$2,163,000,000	0.00%	\$2,163,000,000	\$184,000,000	1,927,000	\$1,122	\$1,122	\$95.49
2Q02	\$2,207,000,000	0.00%	\$2,207,000,000	\$207,000,000	2,036,000	\$1,084	\$1,084	\$101.67
3Q02	\$2,308,000,000	0.00%	\$2,308,000,000	\$215,000,000	2,142,000	\$1,077	\$1,077	\$100.37
4Q02	\$2,301,000,000	0.00%	\$2,301,000,000	\$227,000,000	2,081,000	\$1,106	\$1,106	\$109.08
1Q03	\$2,227,000,000	2.17%	\$2,179,700,499	\$274,000,000	2,042,000	\$1,091	\$1,067	\$134.18
2Q03	\$2,294,000,000	3.17%	\$2,223,514,588	\$267,000,000	2,129,000	\$1,078	\$1,044	\$125.41
3Q03	\$2,395,000,000	2.17%	\$2,344,132,328	\$260,000,000	2,213,000	\$1,082	\$1,059	\$117.49
4Q03	\$2,492,000,000	2.50%	\$2,431,219,512	\$276,000,000	2,262,000	\$1,102	\$1,075	\$122.02
1Q04	\$2,476,000,000	2.83%	\$2,407,857,629	\$280,000,000	2,206,000	\$1,122	\$1,092	\$126.93
2Q04	\$2,685,000,000	4.00%	\$2,581,730,769	\$326,000,000	2,362,000	\$1,137	\$1,093	\$138.02
3Q04	\$2,769,000,000	5.00%	\$2,637,142,857	\$332,000,000	2,467,000	\$1,122	\$1,069	\$134.58
4Q04	\$2,927,000,000	7.33%	\$2,727,103,326	\$397,000,000	2,501,000	\$1,170	\$1,090	\$158.74
1Q05	\$2,982,000,000	8.16%	\$2,757,026,627	\$392,000,000	2,408,000	\$1,238	\$1,145	\$162.79
2Q05	\$3,138,000,000	9.50%	\$2,865,753,425	\$461,000,000	2,465,000	\$1,273	\$1,163	\$187.02
3Q05	\$3,280,000,000	10.50%	\$2,968,325,792	\$499,000,000	2,570,000	\$1,276	\$1,155	\$194.16
4Q05	\$3,201,000,000	15.83%	\$2,763,532,764	\$607,000,000	2,581,000	\$1,240	\$1,071	\$235.18

C2: Quarterly fuel surcharges are determined by averaging the monthly carload surcharge for the 3 months comprising the quarter.

* Information compiled from BNSF filings with the Securities and Exchange Commission.

BNSF

**Change in Fuel Expense Per Car vs. Fuel Surcharge Revenue Per Car
(4th Quarter 2001 to 4th Quarter 2005)**

	Fuel Expense Per Car *	Fuel Surcharge Revenue Per Car**
4Q01	0.00%	0.00%
1Q02	-14.27%	0.00%
2Q02	-8.72%	0.00%
3Q02	-9.88%	0.00%
4Q02	-2.06%	0.00%
1Q03	20.47%	20.80%
2Q03	12.60%	29.72%
3Q03	5.48%	20.64%
4Q03	9.55%	24.12%
1Q04	13.96%	27.73%
2Q04	23.92%	39.25%
3Q04	20.83%	47.99%
4Q04	42.52%	71.76%
1Q05	46.16%	83.88%
2Q05	67.91%	99.16%
3Q05	74.33%	108.88%
4Q05	111.15%	152.18%

* Change in Fuel Expense Per Car is the fuel expense per car in 4Q 2005 minus fuel expense per car in 4Q 2001, divided by the fuel expense per car in 4Q 2001.

** Change in Fuel Surcharge Revenue Per Car is the Fuel Surcharge for 4Q 2005 times the Average Adjusted Revenue Per Car in 4Q 2005, divided by the Total Fuel Expenditure Per Car in 4Q 2001.

BNSF

Fuel Expense & Revenue Per Car 4th Quarter 2001 to 4th Quarter 2005

	Avg. Fuel Exp/Car	Change in Fuel Expense Per Car	% Change in Fuel Expense Per Car	Fuel Surch. Revenue Per Car	% Change in Fuel Revenue Per Car	Per Car Difference in Fuel Cost vs. Fuel Revenue from 4Q 01
4Q01	\$111.38	NA	0.00%	\$0.00	0.00%	NA
1Q02	\$95.49	(\$15.97)	-14.27%	\$0.00	0.00%	\$15.97
2Q02	\$101.67	(\$9.79)	-8.72%	\$0.00	0.00%	\$9.79
3Q02	\$100.37	(\$11.09)	-9.88%	\$0.00	0.00%	\$11.09
4Q02	\$109.08	(\$2.38)	-2.06%	\$0.00	0.00%	\$2.38
1Q03	\$134.18	\$22.72	20.47%	\$23.16	20.80%	\$0.44
2Q03	\$125.41	\$13.95	12.60%	\$33.11	29.72%	\$19.16
3Q03	\$117.49	\$6.03	5.48%	\$22.99	20.64%	\$16.96
4Q03	\$122.02	\$10.56	9.55%	\$26.87	24.12%	\$16.31
1Q04	\$126.93	\$15.47	13.96%	\$30.89	27.73%	\$15.42
2Q04	\$138.02	\$26.56	23.92%	\$43.72	39.25%	\$17.16
3Q04	\$134.58	\$23.12	20.83%	\$53.45	47.99%	\$30.33
4Q04	\$158.74	\$47.28	42.52%	\$79.93	71.76%	\$32.65
1Q05	\$162.79	\$51.33	46.16%	\$93.43	83.88%	\$42.10
2Q05	\$187.02	\$75.56	67.91%	\$110.44	99.16%	\$34.89
3Q05	\$194.16	\$82.70	74.33%	\$121.27	108.88%	\$38.57
4Q05	\$235.18	\$123.72	111.15%	\$169.50	152.18%	\$45.78

Union Pacific
Revenue and Expenses*

	(1) Total Revenue	(2) Fuel Surcharge	(3) Adjusted Revenue C1 + (1+C2)	(4) Total Fuel Expense	(5) Total Carloads	(6) Average Rev/Car (C1 ÷ C5)	(7) Average Adjusted Rev/Car (C3 ÷ C5)	(8) Avg. Fuel Exp/Car (C4 ÷ C5)
4Q01	\$2,618,000,000	0.00%	\$2,618,000,000	\$293,000,000	2,252,000	\$1,163	\$1,163	\$130.11
1Q02	\$2,548,000,000	0.00%	\$2,548,000,000	\$225,000,000	2,178,000	\$1,170	\$1,170	\$103.31
2Q02	\$2,699,000,000	0.00%	\$2,699,000,000	\$268,000,000	2,326,000	\$1,160	\$1,160	\$115.22
3Q02	\$2,726,000,000	0.00%	\$2,726,000,000	\$277,000,000	2,359,000	\$1,156	\$1,156	\$117.42
4Q02	\$2,690,000,000	0.00%	\$2,690,000,000	\$295,000,000	2,268,000	\$1,186	\$1,186	\$130.07
1Q03	\$2,607,000,000	1.46%	\$2,569,485,512	\$352,000,000	2,194,000	\$1,188	\$1,171	\$160.44
2Q03	\$2,764,000,000	2.00%	\$2,709,803,922	\$323,000,000	2,317,000	\$1,193	\$1,170	\$139.40
3Q03	\$2,827,000,000	2.17%	\$2,766,957,032	\$330,000,000	2,367,000	\$1,194	\$1,169	\$139.42
4Q03	\$2,843,000,000	2.50%	\$2,773,658,537	\$336,000,000	2,361,000	\$1,204	\$1,175	\$142.31
1Q04	\$2,777,000,000	2.83%	\$2,700,573,763	\$389,000,000	2,288,000	\$1,214	\$1,180	\$170.02
2Q04	\$3,020,000,000	4.00%	\$2,903,846,154	\$359,000,000	2,368,000	\$1,275	\$1,226	\$151.60
3Q04	\$3,068,000,000	5.00%	\$2,921,904,762	\$459,000,000	2,408,000	\$1,274	\$1,213	\$190.61
4Q04	\$2,827,000,000	7.33%	\$2,633,932,731	\$609,000,000	2,394,000	\$1,181	\$1,100	\$254.39
1Q05	\$3,144,000,000	8.17%	\$2,906,643,492	\$539,000,000	2,300,000	\$1,367	\$1,264	\$234.35
2Q05	\$3,335,000,000	9.50%	\$3,045,662,100	\$597,000,000	2,391,000	\$1,395	\$1,274	\$249.69
3Q05	\$3,454,000,000	10.50%	\$3,125,791,855	\$673,000,000	2,432,000	\$1,420	\$1,285	\$276.73
4Q05	\$3,024,000,000	15.83%	\$2,610,654,995	\$753,000,000	2,421,000	\$1,249	\$1,078	\$311.03

C2: Quarterly fuel surcharges are determined by averaging the monthly carload surcharge for the 3 months comprising the quarter.

C4: UP reports fuel expenses with all other utility expenses. The net effect is to show a higher cost per car for fuel.

* Information compiled from UP filings with the Securities and Exchange Commission.

Union Pacific

**Change in Fuel Expense Per Car vs. Fuel Surcharge Revenue Per Car
(4th Quarter 2001 to 4th Quarter 2005)**

	Fuel Expense Per Car *	Fuel Surcharge Revenue Per Car**
4Q01	0.00%	0.00%
1Q02	-20.60%	0.00%
2Q02	-11.44%	0.00%
3Q02	-9.75%	0.00%
4Q02	-0.03%	0.00%
1Q03	23.31%	13.14%
2Q03	7.14%	17.98%
3Q03	7.15%	19.50%
4Q03	9.38%	22.57%
1Q04	30.67%	25.67%
2Q04	16.52%	37.70%
3Q04	46.50%	46.63%
4Q04	95.52%	61.98%
1Q05	80.12%	79.32%
2Q05	91.90%	93.01%
3Q05	112.69%	103.72%
4Q05	139.05%	131.22%

* Change in Fuel Expense Per Car is the fuel expense per car in 4Q 2005 minus fuel expense per car in 4Q 2001, divided by the fuel expense per car in 4Q 2001.

** Change in Fuel Surcharge Revenue Per Car is the Fuel Surcharge for 4Q 2005 times the Average Adjusted Revenue Per Car in 4Q 2005, divided by the Total Fuel Expenditure Per Car in 4Q 2001.

Union Pacific
Fuel Expense/Revenue Per Car
4th Quarter 2001 to 4th Quarter 2005

	Avg. Fuel Exp/Car	Change in Fuel Expense Per Car	% Change in Fuel Expense Per Car	Fuel Surch. Revenue Per Car	% Change in Fuel Revenue Per Car	Per Car Difference in Fuel Cost vs. Fuel Revenue from 4Q 01
4Q01	\$130.11	NA	0.00%	\$0.00	0.00%	NA
1Q02	\$103.31	(\$26.80)	-20.60%	\$0.00	0.00%	\$26.80
2Q02	\$115.22	(\$14.89)	-11.44%	\$0.00	0.00%	\$14.89
3Q02	\$117.42	(\$12.69)	-9.75%	\$0.00	0.00%	\$12.69
4Q02	\$130.07	(\$0.04)	-0.03%	\$0.00	0.00%	\$0.04
1Q03	\$160.44	\$30.33	23.31%	\$17.10	13.14%	(\$13.23)
2Q03	\$139.40	\$9.29	7.14%	\$23.39	17.98%	\$14.10
3Q03	\$139.42	\$9.31	7.15%	\$25.37	19.50%	\$16.06
4Q03	\$142.31	\$12.20	9.38%	\$29.37	22.57%	\$17.17
1Q04	\$170.02	\$39.91	30.67%	\$33.40	25.67%	(\$6.50)
2Q04	\$151.60	\$21.49	16.52%	\$49.05	37.70%	\$27.56
3Q04	\$190.61	\$60.50	46.50%	\$60.67	46.63%	\$0.17
4Q04	\$254.39	\$124.28	95.52%	\$80.65	61.98%	(\$43.63)
1Q05	\$234.35	\$104.24	80.12%	\$103.20	79.32%	(\$1.04)
2Q05	\$249.69	\$119.58	91.90%	\$121.01	93.01%	\$1.43
3Q05	\$276.73	\$146.62	112.69%	\$134.95	103.72%	(\$11.66)
4Q05	\$311.03	\$180.92	139.05%	\$170.73	131.22%	(\$10.19)