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Douglas Buttrey, Chairman
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Ex Parte 661

Gentlemen:

Again, thank you for holding the hearing on rail fuel surcharges last week. In light of what was said in panels that followed my remarks, I'm following-up with additional comments and clarifications.

Each railroad denied over-collecting fuel surcharge. But I don't recall any of them saying they didn't over-collect on some movements. That was the focus of the hearing.

Shipper presentations were unanimous in asserting there are overcharges. They were harmonious in setting forth some basic guidelines for fuel surcharges. Those are in our written submission, that of the National Grain and Feed Association, and in others' comments, and need not be repeated here.

Page 3 of the BNSF presentation portrayed that the Highway Diesel Fuel price and BNSF Diesel Fuel (price) moved in a parallel fashion. But that is not supported by information presented on BNSF's own website. Included here is a spreadsheet and graph showing 16 calendar quarters of the HDF quarterly average and BNSF fuel cost shown in its quarterly investor reports. The difference between the two ranges from 57¢ per gallon in the second quarter of 2002 to \$1.13 in the third quarter of 2005. That is not a parallel movement. The variance indicates that HDF is not an accurate index for railroad fuel cost. We agree with the several others who testified that the wholesale price of diesel would be much better.

The fact that most railroads are using an outdated base price for fuel creates distortions in surcharges in at least a couple ways. First of all, as consultant Jay Roman said, it is an inaccurate assumption that rates quoted in the past few years have not included fuel cost increases. Assessing surcharges on top of rates that already have higher fuel cost calculated-in is double dipping. Secondly, the farther we get from the base point in fuel cost the more unreliable the end result becomes. This can be compared to building a house of cards or stacking dominoes. The higher you go the shakier it becomes. In 2005 over 57% of BNSF's fuel cost was covered by fuel surcharge. It's as if the surcharge has become the base and vice versa.

Questions were raised about BNSF's per-mile surcharge on grain being 33¢ while coal is at 22¢. (My comment about this did not mean we think coal is getting a hot deal.) Mr. Hund of BNSF said

grain units move at a faster speed than coal units and therefore burn more fuel. But if higher speeds increase fuel consumption, why did BNSF propose back in August 2005 that its fastest movements, intermodal, be assessed by far the lowest per-mile surcharge? The AAR reports that for the week ended August 5, 2005 BNSF intermodal trains moved at 31.5 mph. Grain units moved at 20.5 mph and coal units at 18.7 mph. At that same time, BNSF unveiled its plan to assess a per mile fuel surcharge of 6.4¢ on containers, 10.4¢ on trailers, 19¢ on coal and 29¢ on grain. With intermodal speed 50% more than grain and burning more fuel, why was the intermodal per-mile surcharge 65-80% less than grain? Something isn't adding up here.

Over on the Canadian Pacific the current grain fuel surcharge is 9.46% of the rate. For intermodal it is 18% of the rate. CP spokesperson Marcella Szel said higher speeds burn considerably more fuel. A BNSF to CP comparison may not be exactly apples to apples, but the treatment of these two movements by these two railroads is like day and night. On CP, the surcharge on speedy intermodal is twice that of grain. On BNSF, the surcharge on speedy intermodal was proposed to be 20-30% of grain. The relative treatment differs by a factor of 6-10. It is easy to see why shippers lack confidence in how railroads calculate fuel surcharges.

The CSX spokesman at the hearing said they had to "ask" its customers to help recover increased cost of fuel. That is like the IRS "asking" me to pay my taxes. These fuel surcharges are imposed and the customer pays, period.

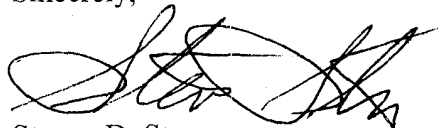
The UP indicated it needs fuel surcharges to increase capacity. CSX also linked fuel cost recovery with increases in capacity. At the same time the railroads tell us fuel surcharges are being used only to recover increased fuel expense. That is the only legitimate reason to collect them. If railroads have been over-collecting for other purposes, they've been misleading their customers.

Railroads have all kinds of new technology. I'm told they track speed, acceleration, braking and maybe other things with a black box in the locomotive cab. This not the same black box I speculated they currently use to calculate fuel surcharge formulas, but maybe the one in the locomotive cab has the capability of computing fuel usage. STB should look into that.

Something is clearly wrong with fuel surcharges and the STB should get to the bottom of it. Issuing a policy statement that surcharges must be reasonably cost related, and then requiring the data to back it up, are a couple possible first steps.

Thank you for listening, again.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steven D. Strege', with a stylized flourish at the end.

Steven D. Strege
Executive Vice President

HDF-BNSF COST

	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1
HDF	1.300	1.346	1.437	1.617	1.469	1.463	1.484	1.587	1.716	1.830	2.097	2.067	2.260	2.564	2.704	2.500
BNSF COST	0.731	0.739	0.777	0.938	0.886	0.864	0.854	0.851	0.967	0.988	1.141	1.133	1.325	1.430	1.691	1.558
DIFFERENCE	0.569	0.607	0.660	0.679	0.583	0.599	0.630	0.736	0.934	0.842	0.956	0.934	0.935	1.134	1.013	0.942

