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October 2, 2006

VIA E-FILING

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

**RE: Supplemental Comments of South Carolina Electric and Gas
Company in response to *Rail Fuel Surcharges*, Ex Parte No. 661**

Dear Secretary Williams:

Enclosed for filing in the above-referenced proceeding are the Supplemental Comments of South Carolina Electric and Gas Company Corporation.

Yours very truly,



Sandra L. Brown

SLB:bgh
Enclosure

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB Ex Parte No. 661

REVIEW OF RAIL FUEL SURCHARGES

**SUPPLEMENTAL COMMENTS OF SOUTH CAROLINA
ELECTRIC AND GAS COMPANY**

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October 2, 2006

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB Ex Parte No. 661

RAIL FUEL SURCHARGES

**SUPPLEMENTAL COMMENTS OF SOUTH CAROLINA
ELECTRIC AND GAS COMPANY**

INTRODUCTION

The Surface Transportation Board's ("STB" or "Board") decision served March 14, 2006 in this proceeding provided notice of a public hearing to be held on May 11, 2006 and request for testimony to address fuel surcharges collected by railroads (hereinafter "Notice"). South Carolina Electric and Gas Company ("SCE&G") submitted written comments in response to the Notice on April 27, 2006 (hereinafter "SCE&G Comments").¹ In an STB decision served August 3, 2006 in this proceeding, the Board has sought public comments on the Board's proposals set out in the August 3 decision (hereinafter "Decision").

SUPPLEMENTAL COMMENTS

SCE&G strongly supports the Board's efforts to establish policies which will encourage a reasonable solution to the current unreasonable practice used by the railroads to assess fuel surcharges on shippers. As stated in SCE&G Comments, rail transportation constitutes a large cost of business for SCE&G. As overall transportation costs increase, SCE&G is concerned

¹ The Identification and Interest of SCE&G can be found in SCE&G's Comments filed with the Board on April 27.

about the impact the additional costs, from increased rates, fuel surcharge adders and poor service may have on SCE&G's retail customers. The Board's Decision was a great step in the right direction; however, there are some areas where the Board needs to go further to achieve true transparency and help restore shipper confidence in rail transportation.

First, SCE&G supports the Board's finding that it has the authority to regulate the unreasonable practices of the railroads, including those practices associated with fuel surcharges. If a railroad practice is found to be unreasonable, the Board can order the railroad to cease engaging in it or the Board can prescribe the "practice to be followed." 49 U.S.C. § 10704(a)(1).² However, the Board must order the railroads to immediately desist with their unreasonable fuel surcharge practices.

Second, SCE&G supports the Board's finding that fuel surcharge programs must be linked to the actual increased cost of fuel for individual movements and that it is an unreasonable practice to compute fuel surcharges as a percentage of the total rate. As stated in SCE&G Comments, as a public utility, SCE&G recognizes the importance of cost recovery mechanisms and supports the railroads ability to cover actual costs of fuel. However, rail fuel surcharges have not been implemented to only recover actual costs. The Board must establish a specific procedure that ensures that any fuel component already included in rates cannot be escalated by an index that includes fuel costs increases, such as the separation of fuel and non-fuel components of rates discussed below.

Third, SCE&G supports the Board's finding that it is an unreasonable practice to engage in "double dipping." In order to protect shippers from railroad double dipping, the Board should

² Additional support of the Board's authority under 49 U.S.C. § 10702 can be found in SCE&G's Comments filed with the Board on April 27.

require the railroads to separate out the fuel and non-fuel components of the total rate and only permit a fuel surcharge, if needed at all, on the fuel portion of the rate.

Fourth, SCE&G generally supports the Board's proposal to require the use of a uniform index to measure increases in fuel costs and supports the Board's proposal to use the EIA No. 2 Diesel Retail Sales Index. However, a separate fuel cost index would not be necessary if the Board just required the use of the RCAF to adjust for all changes in costs, including fuel, and then modify the RCAF as may be needed to provide for appropriate time adjustments.

Finally, SCE&G supports the Board's proposals for railroad reporting and supports the immediate implementation of the proposed reporting. SCE&G is concerned that it appears that, from the few filings made by some of the railroads on September 20th, the railroads are going to take the position that they are not able to provide the information requested by the Board. Thus, new or different reporting requirements may be necessary. The Board should take whatever steps are necessary to ensure that fuel surcharge mechanisms are carried out in a transparent, rational and equitable manner.

CONCLUSION

SCE&G applauds the Board for taking action on the unreasonable fuel surcharges practices engaged in by the railroads. Proactive and quick steps must be taken to expand and implement the proposals regarding fuel surcharges. The Board must reaffirm its findings made in its August 3 Decision and must take swift action to implement any additional fuel surcharge practices needed to assure that the Board's findings are followed.

Respectfully submitted,

 EDB

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