

217924

BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 646 (Sub No. 1)

SIMPLIFIED STANDARDS FOR RAIL RATE CASES

Written Comments

submitted by

UNITED STATES STEEL CORPORATION

UNITED STATES STEEL CORPORATION
600 Grant Street
Pittsburgh, PA 15219-2800

By Its Attorney

Mark W. Furry, Esq.
United States Steel Corporation
600 Grant Street – Room 1500
Pittsburgh, PA 15219-2800
(412) 433-2813

Dated: October 24, 2006

BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 646 (Sub No. 1)

SIMPLIFIED STANDARDS FOR RAIL RATE CASES

Written Comments

submitted by

UNITED STATES STEEL CORPORATION

In a Notice of Proposed Rulemaking issued by the Board on August 2, 2006 (71 FR 43703), the Board instituted a proceeding to seek public comments concerning proposed changes to its guidelines for deciding small rate cases. These comments are submitted by United States Steel Corporation ("USS") in response to the Board's Notice.

I. Introduction

USS is a large fully integrated steel producer with operations in the United States and Europe, producing approximately twenty (20) million tons of raw steel on an annual basis. USS owns and operates in the United States two (2) taconite plants; five (5) fully integrated steel mills; and three (3) finishing/processing mills. These facilities are listed below with the corresponding originating rail carrier(s):

Minntac Taconite Facility-Mt. Iron, MN-CN RR
Keetac Taconite Facility-Keewatin, MN-BNSF
Gary Works Steel Plant-Gary, IN-EJE RR
Mon Valley Steel Works-Pittsburgh, PA-URR
Great Lakes Steel Works-Ecorse, MI-DCRR, CNRR, NSRR, CSXT
Granite City Steel Works-Granite City, IL-TRRA,UPRR, NSRR

Fairfield Steel Works-Fairfield, AL-BSRR
Lorain Tubular Works-Lorain, OH-LTRR
Midwest Steel Works-Portage, IN-NSRR, CSSBRR
East Chicago Tin Mill/Pickle -East Chicago, IL-EJE RR

II. Rail Transportation

A. Raw Materials

Rail transportation is an integral part of USS's logistical network for the procurement and sale of raw materials. Regarding our taconite and iron related products at our two taconite plants in Minnesota, rail is involved, to some extent, in 100% of all of the approximately 23 million tons (280,000 carloads) of transport of those products. Additionally, rail transportation is involved in 6.7 million (105,000 carloads) of the 7.7 million tons of coke that USS produces and/or purchases. Rail also plays a role in handling 8.9 million (89,000 carloads) of the 9.7 million tons of coal that USS annually consumes. Finally, rail handles over 1.0 million tons of limestone (16,800 carloads) and 225K tons of bentonite clay (2250 carloads) that our taconite plants consume per year.

In total, almost 500,000 carloads of raw materials are handled by rail accounting for a transportation cost of approximately \$445 million dollars per year. In addition to the raw materials mentioned above, USS is also a large consumer of scrap. Significant quantities of the scrap received at USS facilities are transported by rail.

B. Steel

Regarding our steel shipments, rail accounts for approximately 48% of all our outbound steel. These rail shipments include semi-finished steel and substrate that moves between our plants, steel products to steel processors and coaters and finished steel to warehouses or direct to our customers. USS ships 80,000 carloads of sheet products, 13,000 carloads of pipe, 10,000 carloads of semi-finished slabs and 2,000 carloads of tin

plate each year from our various steel producing facilities. In total, on an annualized basis, USS ships approximately 105,000 carloads of steel products on the U.S. Railroad network generating an approximate transportation spend of \$192 million.

C. Total

In total, USS's annual approximate carload shipments of both steel and raw materials accounts for over 600,000 carloads generating a rail transportation spend in excess of \$637 million dollars.

III. Major Rail Traffic Lanes

A. Overview

The following is a breakdown of major traffic lanes and approximate annual rail freight spend for each lane by raw material/steel products:

USS Major Rail Traffic Lanes Annualized Traffic

Origin	Destination	Commodity	Approx. Freight Spend (000)
Gary, In.	Dearborn, Mi	Steel	\$3,500
Irvin, Pa.	Fairless, Pa	Steel	\$7,800
Fairfield, Al	Jackson, Ms	Steel	\$3,300
Ecorse, Mi	Leipsic, Oh	Steel	\$2,100
Gary, In	Leipsic, Oh	Steel	\$11,000
Irvin, Pa	Leipsic, Oh	Steel	\$2,300
Fairfield, Al	Pittsburg, Ca	Steel	\$6,400
Granite City, Il	Pittsburg, Ca	Steel	\$13,000
Ecorse, Mi	Portage, In	Steel	\$5,000
Gary, In	Portage, In	Steel	\$4,000
Granite City, Il	Portage, In	Steel	\$2,750
Mt. Iron, Mn	Two Harbors, Mn	Ore	\$69,000

Keewatin, Mn	Allouez, Wi	Ore	\$9,900
Mt. Iron, Mn	Fairfield, Al	Ore	\$73,000
Mt. Iron, Mn	Gary, In	Ore	\$14,400
Keewatin, Mn	Granite City, Il	Ore	\$37,500
Mt. Iron, Mn	Eagle Pass, Tx	Ore	\$4,800
Conneaut, Oh	Pittsburgh, Pa	Ore	\$31,000
Duluth, Mn	Mt. Iron	Stone	\$6,000
Clairton, Pa	Gary, In	Coke	\$42,000
Clairton, Pa	Ecorse, Mi	Coke	\$27,000
Pt, Birmingham, Al	Fairfield, Mi	Coke	\$2,500
Clairton, Pa	Braddock, Pa	Coke	\$5,300
Mingo Logan, Ky	Gary, In	Coal	\$24,000
Pinnacle, WV	Gary, In	Coal	\$32,000
Oak Grove, Al	Gary, In	Coal	\$10,000
Pinnacle, WV	Wheelersburgh, Oh	Coal	\$21,000
Marfolk, WV	Huntington, WV	Coal	\$24,000
Lovell, Wy	Keewatin, Mn	Clay	\$2,800
Lovell, Wy	Mt. Iron, Mn	Clay	\$5,850

B. Comment

Although modes other than rail are used for some USS moves, the circumstances involved in shipping large volumes of coal, coke, taconite and other raw materials required to produce steel, as well as large volumes of finished and semi-finished steel products, are such that USS often has no realistic alternative to rail moves. Furthermore, with limited competition in the railroad industry, USS is frequently a captive shipper or consignee in its rail moves.

IV. Rate Cases and Eligibility

A. Introduction

Although USS currently ships primarily under rail contracts, it is reasonable to conclude that the ever increasing contract rates we are faced with are driven by the ever increasing tariff rates. If there was an effective and efficient method for challenging rail rates before the STB, the option of choosing a tariff rate, and thus retaining a right to challenge the rate, would be a much more realistic option than it is today. Thus, simply having this option would itself create a bargaining tool that USS and other captive shippers could use as they attempt to negotiate rail rates.

To date, there has been little opportunity for USS to challenge a rail rate case before the STB. However, this is not to say that USS does not have concerns about today's rail transportation market. The single most important issue to USS would be the promulgation of a simplified rate standard for coal, taconite and clay. Currently, the only recourse available to USS for these commodities would be the large rate case standards, which are time consuming, convoluted and costly.

Regarding these commodities, USS experiences several captive rail movements which we are concerned could inhibit our ability to negotiate fair and reasonable rates. Although USS supports the STB proposal to include these commodities in its proposed simplified standards, but the current proposal is simply too costly, time consuming and complicated to justify bringing such a rate case.¹

¹ USS's smallest move, from Ecorse, Michigan to Leipsic, Ohio, currently equals approximately \$11 million over five years. In order to be eligible for a simplified SAC under the proposed rule, the maximum value of this case would have to be less than \$3.5 million over that same five year period. Thus, in order to be eligible under the simplified SAC, the "reasonable" rate (180% of the R/VC) for this move would have to be \$7.5 million. As such, in order to be eligible for the simplified SAC, the railroad would have to be overcharging approximately 46% or less (or 226% or less of the R/VC). Although this number may seem

B. Coal

USS's total annual coal movements in terms of tonnage are significant and many of our movements involve captive mines. Thus, a simplified rate procedure for coal would be of greater benefit to USS, if the STB's eligibility criteria were set at reasonable levels.

C. Taconite

Movements of Taconite from our Minnesota facilities make up the other significant USS movement that is captive. Our Keetac plant is captive to the BNSF and our Minntac plant is captive to the CN. USS is concerned that future negotiations may not provide reasonable rates for these critical movements. Again, under the current proposal, these movements would most likely not qualify for the simplified standards.

D. Bentonite Clay

Our bentonite clay movements from Wyoming are captive to the BNSF and we currently are charged tariff rates. The total value of these moves is approx. \$2 and \$6 million respectively; however, pursuant to the proposed criteria, determining eligibility will be costly and time consuming. A simpler eligibility formula would at least allow USS to assess whether it makes economic sense to bring such a rate case.

E. Conclusion

With respect to eligibility, USS submits that the most important factors for eligibility should be a simplified formula with fair eligibility standards. The current proposed eligibility requirements do not satisfy this test. As stated above, our rail

substantial, in reality it is very low in comparison to many of the rates currently charged by the Class I railroads. As such, it appears unlikely that any of USS's rail movements would qualify for the simplified rate case.

movements, although significant in terms of annual tons, do involve small moves and are frequently captive. Under the current SRC proposals, almost all of these moves would not be eligible for the simplified standards.

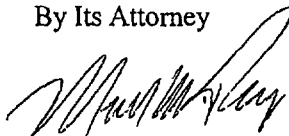
V. Conclusion

In conclusion, as a leading manufacturer of steel in the United States and a significant customer of rail transportation, USS is extremely concerned about the lack of any reasonable or effective means for shippers to challenge rail rates. To that end, USS respectfully submits that the proposed SRC standards fail to provide for simplified and fair eligibility standards for all rate cases. Additionally, the entire current proposed SRC standards appear to be complex, expensive, unclear and unworkable.

Respectfully submitted,

UNITED STATES STEEL CORPORATION
600 Grant Street – Room 1500
Pittsburgh, PA 15219-2800

By Its Attorney



Mark W. Furry, Esq.
United States Steel Corporation
600 Grant Street – Room 1500
Pittsburgh, PA 15229-2800
(202) 263-4103

Dated: October 24, 2006

VERIFICATION

STATE OF PENNSYLVANIA)
)
COUNTY OF ALLEGHENY)

I, John C. Pranaitis, the Managing Director - Transportation of United States Steel Corporation, have read the foregoing Written Comments of United States Steel Corporation and I declare, under penalty of perjury, that they are true and correct to the best of my knowledge, information and belief. Further, I certify that I am qualified and authorized by United States Steel Corporation to file these comments.



John C. Pranaitis

Subscribed and sworn to
before me this 23rd day
of October, 2006.

Notary Public

CERTIFICATE OF SERVICE

I hereby certify on this 24th day of October 2006, that I have served all parties of record in this proceeding with this document by first-class U. S. mail.



Aimee DePew