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October 30, 2006

Via Facsimile: 202-565-9004

Surface Transportation Board
Attn: STB Ex Parte No. 665
1925 K Street, N.W.
Washington, D.C. 20423-0001

ENTERED
Office of Proceedings
OCT 30 2006
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Public Record

Re: November 2, 2006 Hearing Testimony on Rail Transportation of Grain

Ladies and Gentlemen:

Attached is the testimony of Randal L. Linville, President and Chief Executive Officer of The Scoular Company provided pursuant to his Notice of Intent to Participate in the referenced hearing. This testimony was also forwarded electronically.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joan C. Maclin".

Joan C. Maclin
Senior Vice President and General Counsel

Attachment

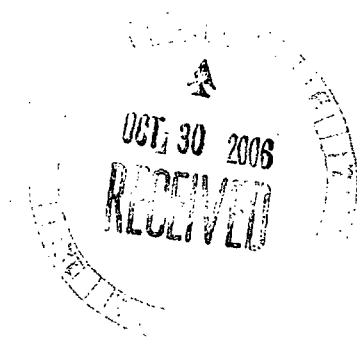
BEFORE THE
SURFACE TRANSPORTATION BOARD

EX PARTE NO. 665
RAIL TRANSPORTATION OF GRAIN

TESTIMONY OF
RANDAL L. LINVILLE
CHIEF EXECUTIVE OFFICER
THE SCOLAR COMPANY

Randal L. Linville
The Scoular Company
10801 Mastin Blvd, Suite 800
Overland Park, Kansas 68102
(913) 338-1474

Date: October 30, 2006



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SURFACE TRANSPORTATION BOARD

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RAIL TRANSPORTATION OF GRAIN

TESTIMONY OF

RANDAL L. LINVILLE
CHIEF EXECUTIVE OFFICER
THE SCOULAR COMPANY

I. INTRODUCTION

My name is Randal Linville and I am the Chief Executive Officer of The Scoular Company ("Scoular"). My business address is 10801 Mastin Boulevard, Suite 800, Overland Park, Kansas 68102. I appreciate the opportunity to appear here because the rail transportation of grain has been an important part of Scoular's business for decades, but more importantly because it will be vital to the future of our company and the entire U.S. grain industry.

Scoular is a privately owned company that will celebrate its 115th anniversary next year. Historically, our company was engaged in a rather traditional grain elevator business, storing grain in the heartland for re-distribution by truck and rail throughout the year. In the last 20 years however, we have transformed our business to become supply chain managers for a wide variety of agricultural products, including grain. In last year alone, our freight bills paid to U.S. rail carriers totaled more than 200 million dollars and we marketed more than 700 million bushels of grain.

There is no industry more central to Scoular's operations than bulk commodity transportation in the U.S. We use truck, barge, container and vessel freight routinely, though rail is clearly the centerpiece of our transportation strategy. And although we are moving many different products, my comments today will focus on our core and largest business, which is grain marketing.

There are three key points that I will make today: 1) the rail industry has demonstrated its ability to respond effectively to the dynamic needs of U.S. grain markets in a substantially unregulated environment; 2) regulated rates would insulate grain markets from the realities of supply and demand and thereby decrease competitiveness in both domestic and global markets; and 3) the existing rate system provides vital support for infrastructure improvements that are critical to grain markets of the future.

II. DEREGULATION HAS BEEN SUCCESSFUL

In my personal career of almost 30 years in the grain business, the Staggers Act and the creation of the Surface Transportation Board are the only significant congressional actions that dealt directly with the rail industry. Both reduced government involvement. The rail transportation of grain, and indeed the whole of the U.S. rail industry, has benefited in this period of time. Over this period, the excess capacity of the pre-Staggers era has been steadily consumed by rising demand to the point that it now appears as if demand will completely outstrip capacity in the foreseeable future.

We need to be certain that nothing interferes with the freedom of the railroads to invest where the market dictates, in areas of greatest demand. The record since Staggers demonstrates that, when free to focus on demand, the railroads are very innovative. To offer just a few illustrations -

- Railroads have invested in facilities, equipment, systems and operations that support highly efficient shuttle train movements to markets like the California and Idaho dairy sheds, high plains feedlots and southeastern poultry growers, reducing cost and increasing productivity for these end users that are vital to U.S. agriculture.
- Railroads have offered trip incentives to encourage shippers to keep equipment in motion, reducing one of the key components of variable cost.
- Railroads have created pools and other vehicles that encourage commercial trading of freight, thus allowing the freight to move to demand in a fluid and efficient way.

- Railroads have used rates to support innovative programs such as sweep and exploder trains, taking advantage of large units even when individual origins or destinations cannot handle them.

In each of these illustrations, it has not been the railroad creating the demand, but rather the market. What the railroad has done is use its capital and rate structures to respond to demand by creating efficiencies that in turn help attract business to the railroad. This is the very essence of the market-based competition that was intended by passage of the Staggers Act and the creation of the STB. From the perspective of Scoular's business at least, I can say without equivocation that efficiency, productivity, service and innovation have improved substantially since 1980.

III. RATE REGULATION DECREASES COMPETITIVENESS

As we all know, the job of the grain industry in the United States is to move grain from production to consumption. Unlike many consolidated industries, this means moving grain from multiple points of production concentrated in the central time zone, to multiple points of consumption concentrated on the coasts and beyond. Marketing U.S. grain is made even more complex by the long response cycle between supply and demand, with grain planting decisions made as much as 20 months before the end of the crop marketing year and counter-cyclical harvests in the southern hemisphere.

The role of a marketing firm like Scoular is to reduce risk for our customers at both origin and destination by building efficient and flexible supply chains that can accommodate shifting relationships between supply and demand. One of the critical ways that we manage risk is by serving multiple origins and destinations, allowing us to direct grain movements when and where needed at the lowest possible cost. The value of delivered grain is where the marketing equation starts and it is our job to source grain from the lowest cost origin from which execution is possible. This commitment to our customers is essential to their competitiveness in their markets; we wouldn't have customers if grain supplied by us was not at or below market cost.

When regulation enters the picture, it distorts the economic relationship among competing origins, destinations and routes. It creates an artificial variable in the equation to be solved in connecting grain supplies to grain consumption at lowest cost. At first

blush, it can appear to level the playing field for shippers that are disadvantaged by market driven grain flows; but regulatory correction only serves to relocate the disadvantage by distorting the economic movement of supply to demand.

To illustrate, if Origin A is at a five-cent per bushel disadvantage to Origin B, in today's market it will change the behavior at Origin A. Producers there might switch to more competitive crops; industries might invest in value-adding processes to create products that can compete more favorably than unprocessed grain; elevators might invest in efficiencies that narrow the spread to Origin B; short lines and trucks will be encouraged to open new markets. But if the government erases that five-cent "disadvantage", the behavior at Origin A is insulated from the very market forces that would encourage innovation and competitiveness while instead it is lulled to complacency with an outdated business model. Ultimately, Origin A becomes even less competitive, but the disadvantage is not so much a rail rate as a failure to adapt to the markets of today.

In agriculture, export markets have always played an important part even in establishing domestic values and grain flows. Grain and grain-based exports are a critical part of the nation's trade balance and will expand as developing economies strengthen. With limited exceptions for humanitarian aid, the ITC and WTO have become powerful forces dedicated to the elimination of market distorting subsidies and quotas. The global market of the future is perhaps the most compelling reason for U.S. agriculture to eliminate structural barriers that will slow our response to ever-changing market signals. With the rail transportation of grain a critical part of our global competitiveness we can ill afford to divert their attention and resources from the market by mandating rate or operating parameters.

IV. RATES SUPPORT CRITICAL INFRASTRUCTURE NEEDS

At Scoular, our outlook is not very different from what you will hear around the industry in general. We have seen steadily growing demand for all agricultural commodities and markets that are almost exclusively demand driven. With increased production of renewable fuels, a rising yield curve, a growing population that continues

to shift to coastal and southern regions and strong export markets, there is no reason to forecast a decline in demand for any mode of grain transportation.

Grain moves in barges, trucks, containers and vessels, each of which competes against the others for its fair share of U.S. grain transport. Today, virtually every mode of transportation is stressed with commensurate infrastructure needs whether that be highways, loading stations or port capacity. For the railroads to compete effectively, they have to concentrate on what rail alone can do: long hauls in high volume. This requires storage capacity, high-speed loadout and receiving capacity, heavy gauge track on a system that can handle multiple trains without switches. All of this infrastructure comes with a cost, but a cost the grain industry is clearly willing to pay.

Today, Class 1 railroads are operating numerous shuttle trains. This kind of capacity scarcely existed 12 years ago yet now predominates the rail transportation of grain. It is evidence that the railroads are concentrating their investment in regions of densest demand and in the kind of transportation that cannot be replaced by other modes. In turn, the railroads have used rates and various other kinds of industrial development incentives to encourage the grain industry to invest alongside them in order to make this efficient flow of cross-country grain possible. The grain industry has responded by constructing a network of highly efficient grain facilities capable of loading or receiving shuttle trains of grain, while at the same time the railroads are adding and rebuilding track across their transcontinental systems.

Nonetheless, the markets of the future will require a vastly expanded infrastructure. No one industry can do this alone. A tacit partnership already exists between the grain industry and the railroads and we need to envision a dramatic expansion on that partnership to include shippers, receivers and ports in addition to the railways, all contributing to a streamlined distribution network for U.S. grains. The unfettered ability of these industries to align in the expansion of our infrastructure, particularly in this environment of unprecedented opportunity, is imperative if the U.S. is to retain its competitive advantage in agriculture.

The evidence that U.S. railroads and the grain industry are operating for mutual benefit is abundant. As in any industry, this does not preclude the possibility that there will be isolated instances of inequity. The STB is dealing appropriately with this

possibility in its proposed simplified standards for rail rate cases. Scoular believes that meritorious rail rate complaints will be few and isolated, but for those that may exist, they are entitled to efficient and affordable adjudication. We believe the simplified standards assure that.

To go beyond the provision of such a process in deference to a very small number of disgruntled shippers appears to Scoular to be regressive. Evolution in the transportation of grain has occurred rapidly, leaving some to long for days of old when smaller units and shorter trips were common. The protection and preservation of outdated economics via rate regulation would be defensible for social good, if at all. As we've seen in the evolution of farm programs, there are ways to address social policy needs from general funds without the introduction of price regulations that will distort market signals to the detriment of all.

V. SUMMARY

In summary, Scoular's experience demonstrates that the U.S. railroads are responding very effectively in our dynamic grain markets of today and the future. To interfere with their ability to create market-based solutions by regulating their rates or rate-setting procedures would be a step backwards. There is a suggestion that this would serve a small number of disadvantaged shippers, but the artificial preservation of uneconomic supply chains ultimately serves no one. Instead, we encourage the STB to continue to improve the procedure for handling rate cases while allowing railroads and the grain industry to look forward, concentrating their resources where the market demands.

Thank you again for your interest and the opportunity to appear here.

Respectfully submitted,

Randal L. Linville
President and Chief Executive Officer
The Scoular Company