

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**EX PARTE NO. 671
RAIL CAPACITY AND INFRASTRUCTURE REQUIREMENTS**

**WRITTEN STATEMENT OF
NATIONAL COAL TRANSPORTATION ASSOCIATION**

This written statement is submitted on behalf of the Board of Directors of the National Coal Transportation Association (“NCTA”) and is in support of the oral testimony presented by the Executive Director of NCTA at the hearing before the Surface Transportation Board on April 11, 2007. The NCTA is an association of coal producers, electric utilities, and coal transportation product and service providers with over 130 corporate members doing business throughout the United States and Canada. The membership produces, contracts for rail transportation, and consumes over 700 million tons of coal annually and owns or controls over 80,000 dedicated coal cars that are primarily in unit train service.

RAIL TRANSPORTATION AND INFRASTRUCTURE CAPACITY

An efficient and capable rail transportation infrastructure is critical for this nation and the members of NCTA. Such transportation infrastructure not only includes the facilities of the railroads, but also includes related track and facilities of the coal producers and electric utilities that make the complete transportation system work efficiently and more

economically. Therefore, all parties must assure that sufficient capital is invested throughout the infrastructure to meet the demand today and in the future.

All shippers and railroads need the availability of sufficient information to understand and evaluate both the customer demand and capacity of the carriers to deliver that demand. Currently, there is a lack of comprehensive information for any party to evaluate and understand the interdependent rail infrastructure capacity and whether adequate capacity or planned capital investment will meet demand in the mid to long term future. A third-party repository or information source to aggregate and properly compartmentalize demand and capacity data could in turn provide such information to the parties of the coal transportation infrastructure while maintaining the necessary confidentiality. The producers, utilities, and carriers are inextricably locked together with each being like legs of a triangle, but the concern of divulging competitive or marketing information prevents the parties from freely providing the necessary information for the efficient allocation of capital expenditures. The STB may be able to provide an important service to the entire coal transportation infrastructure by collecting, aggregating, and disseminating this information regarding infrastructure capacity.

The Board should be commended for conducting this public review of the rail transportation systems capabilities to meet the demands of the shipping community. NCTA members are prepared to assist the Board in its efforts to improve an efficient transportation system and maintain the healthy railroad networks of today.

Coal producers provide facilities including capital intensive load-outs with batch weigh systems or flood loading systems along with the rail track and loading crews to support efficient loading operations. This has enabled the rail carriers to minimize time spent under

the tippie while having the benefit of dependable and regular train loading times, thereby increasing the efficiency of rail crew planning and utilization. Coal producers in several locations are investing in rail landing spots (about 1.5 miles of rail per landing spot with a cost close to \$2 million per landing spot) that greatly enhances the possibility of the rail carrier having an empty train on a producer's property ready to load as soon as a train in front of it finishes loading.

Utilities are continually investing in railcars with improved technology and higher net lading capacity. They are developing landing spots, faster unloading systems, and more on site track to accommodate longer trains. Longer trains have provided significant increases in capacities when train cycle times have been flat to increasing over several years. Utilities are providing the capital for an expanded rail fleet and now have a fleet that would require about \$5 billion dollars to replace. Maintenance costs for car owners have increased significantly in recent years as rail carriers instituted new rules to enhance the "health" of the rail maintenance of way. These additional costs to the car owner continue to overwhelmingly benefit the rail carriers.

In addition to their investment in capital assets which allow the railroads to better utilize their infrastructure and improve overall capacity, NCTA members have led the effort to increase capacity through better communications and process improvements. The NCTA Western Logistics and Planning Committee was formed in the mid-1990's in the aftermath of major western Class 1 rail mergers. The integration of such large rail systems presented many operational, process, and technical challenges and concerns. The coal producer and coal consumer members of the Western Coal Transportation Association (now NCTA) came together with the carriers to form the Logistics and Planning Committee to seek solutions to

the service difficulties encountered during this time. Due to the positive results of this cooperative effort, the Logistics and Planning Committee became a permanent standing subcommittee of the NCTA in 1998. Since that time, the Logistics and Planning Committee has gone on to tackle other planning and logistical issues as they have arisen with respect to western coal shipments. Without this committee in place and able to respond, the impact to utilities and coal producers resulting from the 2005-2006 capacity shortage could have been substantially worse. The NCTA also has formed an Eastern Logistics and Planning Committee to address the unique and complex logistics issues in the East.

While this near term planning requires the continued cooperation of the railroads to succeed, the benefit to all parties is the ability to maximize the capacity inherent in the existing infrastructure and minimize the economic burden on the ultimate end user, namely the electric ratepayer. The NCTA believes the cooperative effort typified by its Logistics and Planning Committees could be expanded should a national long-term review of capabilities of the railroads be instigated. The NCTA would be willing to assist in any such effort.

NCTA recognizes and truly appreciates the capital for coal capacity expansion expended yearly by the rail carriers for multiple tracks over multiple corridors, more staging tracks at strategic locations, investments in crews and their training, and the conversion to the use of AC locomotives for high volume, heavy hauls over challenging terrain, and much more. Significant investment will continue to be required based on industry and government forecasts by the Energy Information Administration (“EIA”). Indeed, EIA is forecasting an increase of between 43 gigawatts (reference case) and 121 gigawatts (low cost coal case) of pulverized coal usage by the year 2030. This could increase the coal transportation requirements by approximately 600 million short tons within the next 25 years. Of course,

many events and governmental policies can change long range forecasts, but it should be noted that the total increased electricity demand from all forms of generation is three times the increased demand forecasted to be supplied from coal. Railroads are capital intensive as a percentage of revenue, but the capital dollars required by electric utilities and coal producers over the next two decades is multiples higher than the capital dollars required by transportation entities. Therefore, electric utilities and coal producers should have the benefit of any tax credits made available to the rail carriers when making similar significant investment in the coal transportation infrastructure.

INSUFFICIENT RAIL CAPACITY IS COSTLY

The last several years have seen failures to meet reasonable forecasted and actual demand for the rail transportation of coal. Whether the cause is insufficient installed capacity, natural disasters, failure of infrastructure, crew and power shortages, inefficient operations, or inadequate communications, the result has been a continuing failure to meet the demand for coal forecasted and purchased by utilities. As with all businesses, events can cause a decrease in capacity or an unexpected increase in demand. For example, in 2005, on a nationwide basis about 30 million tons of coal demand went undelivered. This increased the demand for an already tight supply of natural gas for electricity generation which increased home heating bills and electricity rates. This scenario also depressed expected revenue and planned mine production for coal producers and by some estimates cost roughly \$4-6 billion to the economy because of the differential between coal and natural gas pricing to generate electricity. There was insufficient capacity to deliver “make-up” tonnage under contracts and it has taken almost two years to replenish utility inventory levels to a satisfactory condition.

Insufficient capacity leads to higher transportation rates in a duopoly environment. Economic theory indicates that a long term duopoly will lead to pricing at the long run marginal costs of each of the competitors and that this pricing will be below monopoly pricing. This theory assumes that sufficient capacity exists for each carrier to allow them to compete with each other. There is little incentive for a carrier to aggressively compete for new business, if a rail carrier is selling its last increment of capacity. This does not arise from nefarious business practices; it is simply rational economics, but it is harmful to the shipper and the economy. Indeed, insufficient transportation capacity is more likely to lead to increasing rates and embargoes on new business than to encourage competition.

This leads us to the question, what is sufficient capacity? Coal producers and electric utilities are not advocating that rail carriers maintain excess capacity with unused facilities. On the other hand, the system is not efficient for all parties when events frequently occur that cause system failures with no hope of making-up the tonnage within the near future. There should be installed capacity within the rail transportation infrastructure that allows for bad weather events, derailments or localized failure of the roadbed or a bridge, planned maintenance, short term mine outages, national emergencies, etc. Sufficient capacity is hard to measure, but electric utilities have been providing “spinning reserve” and electric grid interconnections, and shoulder and peaking capacity as a standard of service for their customers because of the high cost of failure. Their obligation to serve does not allow electric utilities’ generating capacity to be designed to always lag customer demand. Likewise, “sufficient” rail transportation capacity is necessary to provide economic efficiency for the entire infrastructure while meeting the obligation to serve.

DEVELOPING CAPACITY IN THE RAIL TRANSPORTATION INFRASTRUCTURE

NCTA members have contributed significantly to the rail transportation infrastructure with capital, increased railcar maintenance expenses and the construction and maintenance of loading and unloading complexes. Further, we actively sponsor and participate in cooperative industry working committees to improve communications and information flow between carriers and their customers.

Railroad customers will be investigating increased capacity from many sources, such as;

- Electronically-Controlled Pneumatic Brakes
- Longer Unit Trains Carrying More Tonnage
- Enhanced Communications and Forecasting for More Efficient Allocation of Resources
- Improved Loading and Unloading for the Carriers with More Train Landing Spots
- Onboard Railcar Detection and Monitoring
- Improvement in Average Train Velocity and Decreased Cycle Times

NCTA does not oppose public-private partnerships to aid the carriers in providing “sufficient” capacity, but both coal producers and electric utilities will have tremendous capital requirements going forward and will need to be included in partnerships and legislation granting tax credits for their transportation investment. Investments by electric utilities in railcar technology such as ECP brakes wherein the benefits inure directly to the rail carriers will require some sharing of benefit to allow a return on investment for private car

owners. Finally, the rail carriers' customers expect the carriers to provide the capital to achieve sufficient capacity to meet the customers' coal demand forecasts so we can maintain a reliable and reasonably-priced electric power supply.

The membership of NCTA has a large stake in the success and efficient growth of the coal transportation infrastructure. We desire to provide positive and thoughtful input within various industry meetings and will be pleased to work with the Surface Transportation Board and staff to see that rail infrastructure capacity will be sufficient for reasonably forecasted demand.

Respectfully submitted,

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National Coal Transportation Association

Dated: April 4, 2007