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July 5, 2007

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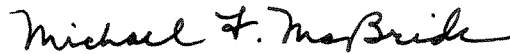
Mr. Vernon A. Williams, Secretary
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

Re: *STB Ex Parte No. 672 – Rail Transportation of Resources Critical to
The Nation's Energy Supply*

Dear Mr. Williams:

In accordance with the Board's Decision issued June 6, 2007, in the above-referenced proceeding, enclosed for filing is the Statement of Jeffrey G. Herndon, Manager, Coal Supply, on behalf of Energy Services, Inc.

Respectfully submitted,



Michael F. McBride

On Behalf of Entergy Services, Inc.

Enclosure

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB Ex Parte No. 672

**EFFICIENCY AND RELIABILITY OF RAIL TRANSPORTATION FOR
ENERGY SUPPLY**

**STATEMENT
OF**

**Jeffrey G. Herndon
Manager, Coal Supply
Entergy Services, Inc.**

I. INTRODUCTION

On behalf Entergy Services Inc. and the Entergy operating companies (collectively “Entergy”), I would like to thank the Board for taking the time to provide shippers with the opportunity to provide comments relating to the efficiency and reliability of rail transportation for energy supply. We agree with the Board’s assessment that rail transportation is a vital link to energy supply which is crucial to this Nation’s economic stability and national security. We applaud the Board’s efforts toward hearing and responding to rail shipper concerns regarding rail transportation reliability.

Entergy owns and operates 5 coal fired generating units through its operating companies Entergy Arkansas, Inc. (“EAI”) and Entergy Gulf States, Inc. (“EGSI”) These coal units, which total 3,887 MW of capacity, include the White Bluff Steam Electric Station (“WBSES”) and Independence Steam Electric Station (“ISES”) in Arkansas, and the Roy S. Nelson Steam Electric Station (“Nelson”) in Louisiana. Entergy ships approximately 15 million tons/year of coal from the Powder River Basin (“PRB”) in Wyoming to these coal coal-fired generating facilities. All of these units were originally designed to burn PRB coal, and with the exception of small test burns of lignite and petcoke, did in fact burn 100% PRB coal until 2005.

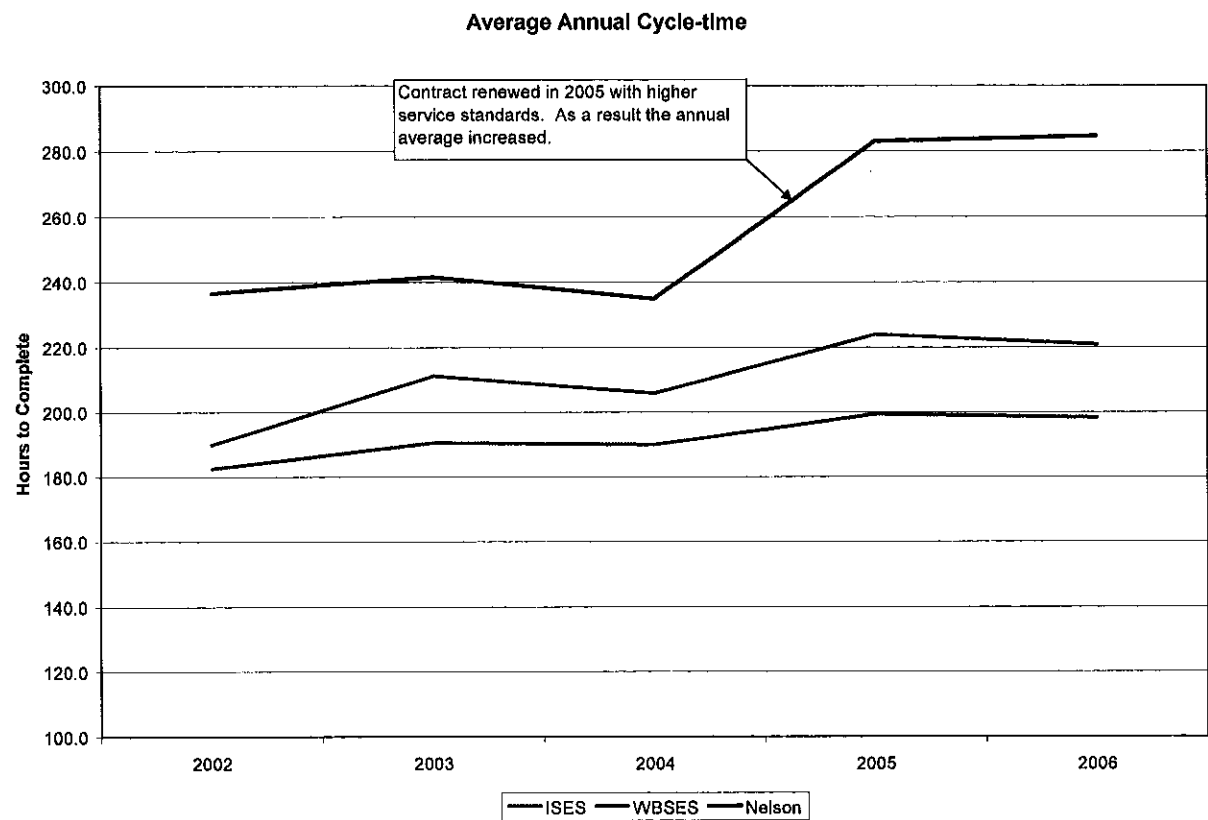
II. RELIABLE RAIL SERVICE IS CRITICAL TO AMERICA’S ENERGY SECTOR

In 2007, approximately 360 million tons of coal will be mined and shipped out of the PRB. In other words, approximately 1 million tons of coal will be shipped out of the PRB each and every day. To accomplish this feat by rail, the western railroads will need to handle 69 empty and 69 loaded trains per day in and out of the PRB. Some forecasts predict that coal shipments from the PRB will approach 500 million tons per year by 2025 (40% increase in less than 20 years). The only practicable mode of transportation to originate coal from this region is rail. By way of comparison, it would require 14 million individual truck receipts over an average of approximately 1,000 mile one-way hauls to deliver the 2007 annual amount of coal by truck. That movement would require 59,840 trucks traveling at 55 MPH without breaks. Due to the absence of any navigable waterways within 1,000 miles of the PRB, barge transportation of PRB coal is dependent on rail origination to the Mississippi River. In fact, there are only a few limited circumstances where rail transportation does not play a role in the transportation of coal from any region to power plants. Fifty percent of the electrical generation in this country is based on coal fueled generation, and any chronic long-term significant loss of this coal-fired generation could result in a major shortage of electrical power.

While a catastrophic event on a Class 1 railroad system could potentially paralyze this nation from a number of different perspectives, even smaller transportation disruptions can affect how a utility shipper views rail service reliability. Certainly the recent increase in the number of transportation disruptions, Force Majeure declarations, and general track congestion conditions is causing the utility section to question the reliability of service. We are all well aware of the 2005 service disruptions, which in

some areas of the country are still prevalent, that resulted in railroads shipping only about 80-85% of the demand from the PRB. Less well known is the fact that railroad service to long standing PRB customers has been continually degrading over time. At Entergy’s three plants, significant increases in cycle-time are evident in the below chart that plots total hours cycle-time average for the year for each plant.

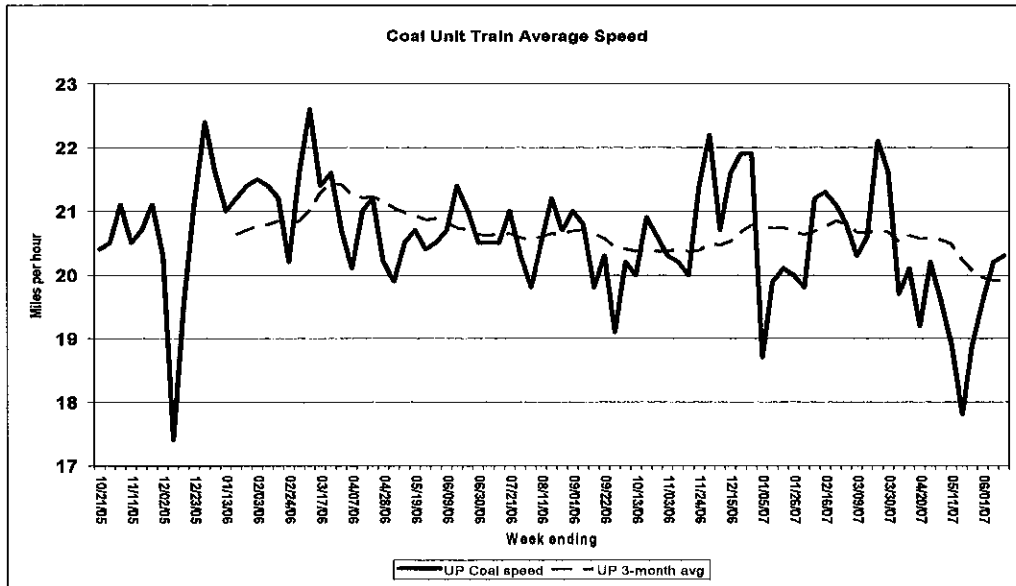
Figure 1 - Average Annual Cycle-Time at the Entergy-Operated Coal Plants



In Arkansas, where WBSES and ISES are located, year-to-date deliveries in 2007 are near 100% of EAI’s nominations; however, this is due almost entirely to the fact that UP is using 3-5 of its own trainsets to move make-up tons, not because UP is meeting its contract cycle times. In fact, UP’s cycle times have not shown any substantial improvement during 2006, showing a higher annual average than in the years prior to the interruptions in 2005. The Entergy experience is consistent with UP’s own statistics

showing that there has been no significant improvement in train speed since the last quarter of 2005, rather a declining trend by the 2nd quarter of 2007, see figure 2, showing 3-month average speed for UP coal unit trains¹.

Figure 2 - UP Coal Train Speed



In the past, UP has removed its own trainsets from EAI's service without any prior notice, thereby forcing EAI to rely on its own trainsets being subject to the poor cycle times. Despite the additional railcars provided by UP, EAI has been required to make alternative coal purchases in order to increase its stockpiles to desired pre-summer levels. Through June of 2007 EAI has had to purchase approximately 1,318,300 tons of alternative² coal delivered by barge and rail in addition to some generation curtailments. The purchase of alternative fuels is not an economical alternative to burning PRB coal. In fact, the cost of these alternative fuels is at least two and a half times the cost per MMBtu compared to rail delivered PRB coal. Because of the significant increase in cost

¹ Source: www.railroadpm.org

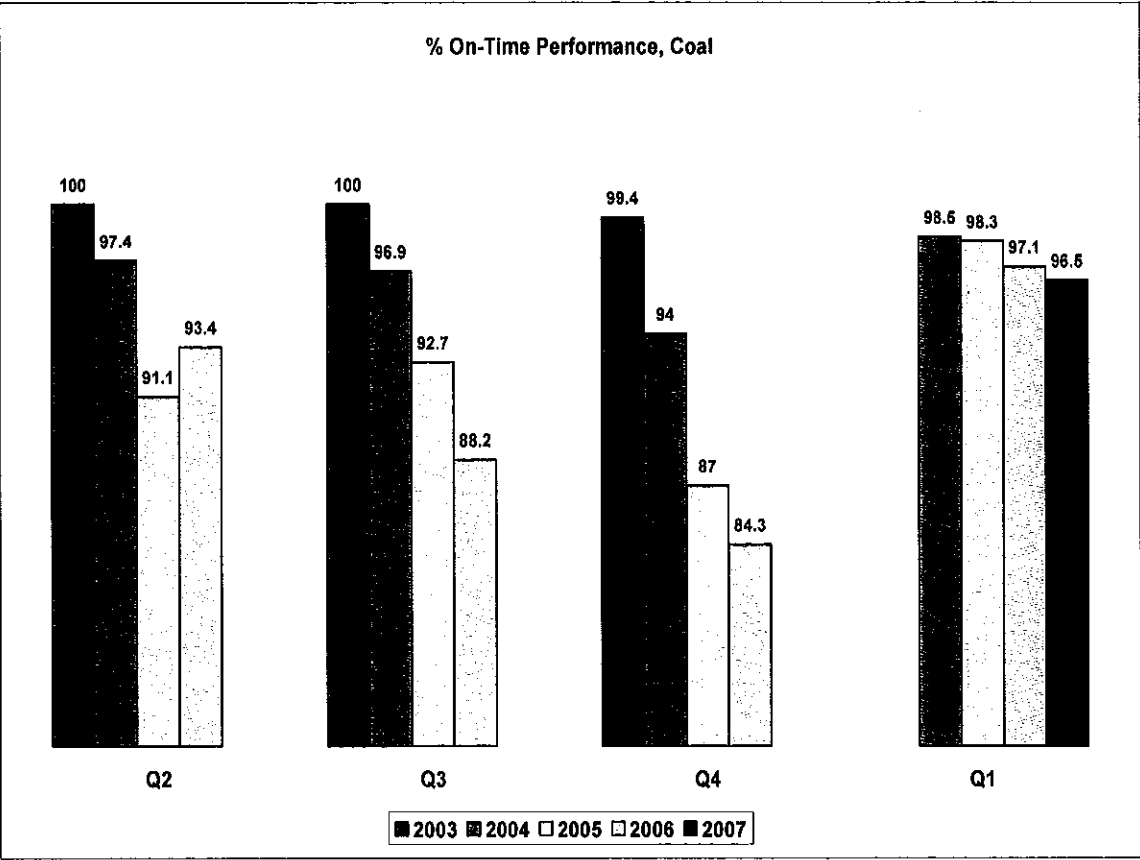
² Alternative coal refers to coal other than PRB-coal delivered by rail. The majority of this alternative coal has been obtained from Colorado origins, with some imported coal from Colombia and Indonesia. Each alternative has a substantially higher delivered cost on a comparative \$/mmbtu basis.

for alternative coals and the relatively reliable transportation service for PRB coals through 2004, western utilities have not pursued alternative coal opportunities until 2005 when it became apparent that transportation disruptions, not just located in the PRB, are occurring at a higher frequency and having longer durations. None of these additional purchases would be necessary if UP would provide reliable service in a manner consistent with its contractual obligations.

At Nelson, not only have the railroads' cycle-times increased significantly over time, year-to-date deliveries for the year 2007 remain well below nominations and are only approaching 85% overall. This 85% of nominations is based on 50% BNSF and 50% KCS service. The stockpile level at Nelson is at the desired pre-summer level only because of an extended planned maintenance outage, the purchase and delivery through June 2007 of approximately 460,800 tons of alternative fuel, and some generation curtailments. As stated above for Arkansas, the cost of these alternative fuels is at least two and a half times the cost per MMBtu compared to rail delivered PRB coal.

BNSF's own numbers³ also show a declining trend in on-time performance. Although the change in first quarter performance is not as dramatic as the other quarters, the trend is unmistakably one going in the wrong direction, where the railroad is becoming less reliable.

³ Source: http://www.bnsf.com/investors/presentations/pdf/2Q_2006_Presentation_Color.pdf,
http://www.bnsf.com/investors/presentations/pdf/3Q_2006_Presentation_Color.pdf,
http://www.bnsf.com/investors/presentations/pdf/4Q_2006_Presentation_Color.pdf,
http://www.bnsf.com/investors/presentations/pdf/1Q_2007_Presentation_Color.pdf



It is also disturbing that during 2005 and 2006, while the railroads had problems with deliveries out of the PRB to their existing customers, the Railroads nevertheless provided rail transportation service to facilitate test burns in the eastern market. At least 9 plants⁴ either completed tests, or started PRB-burns during this period when shippers like Entergy (one of the oldest and largest PRB shippers) were being deprived of contract requirements.

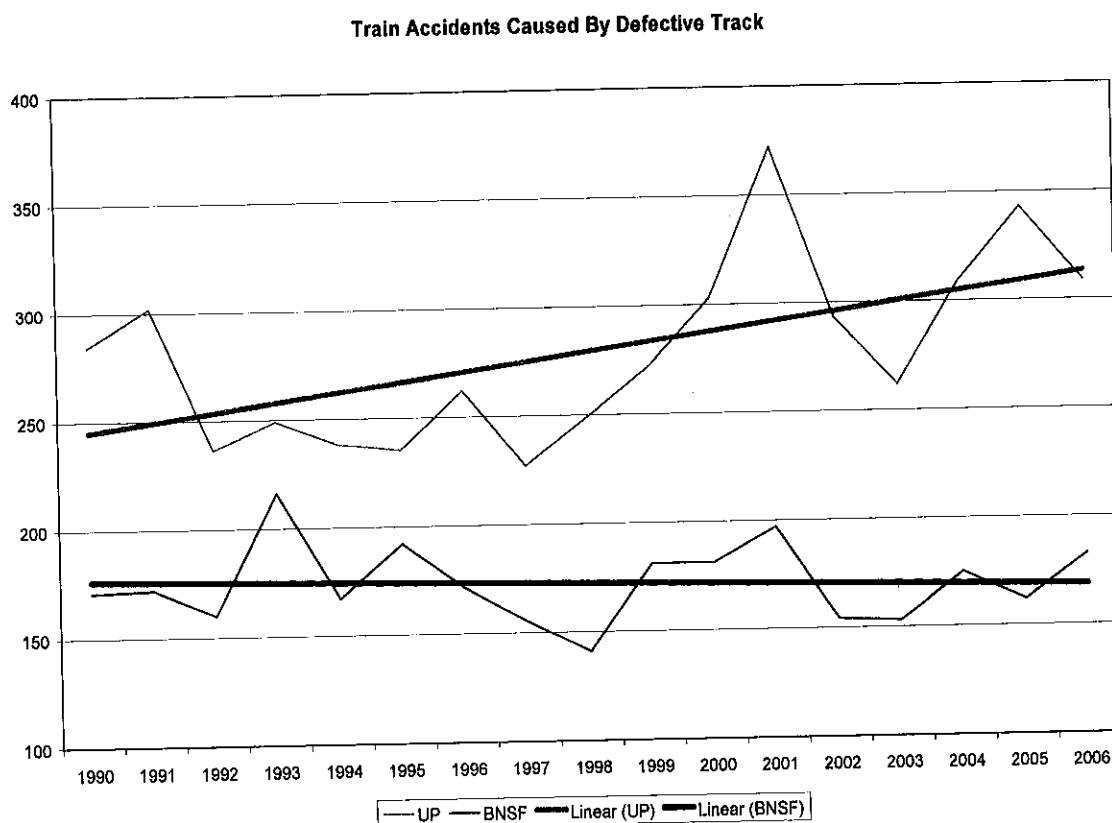
Partly to blame for the railroads' inability to provide reliable transportation services is the railroads' failure to maintain their infrastructure to accommodate the rising

⁴ Source: http://www.bnsf.com/investors/presentations/pdf/jpmorgan_color.pdf

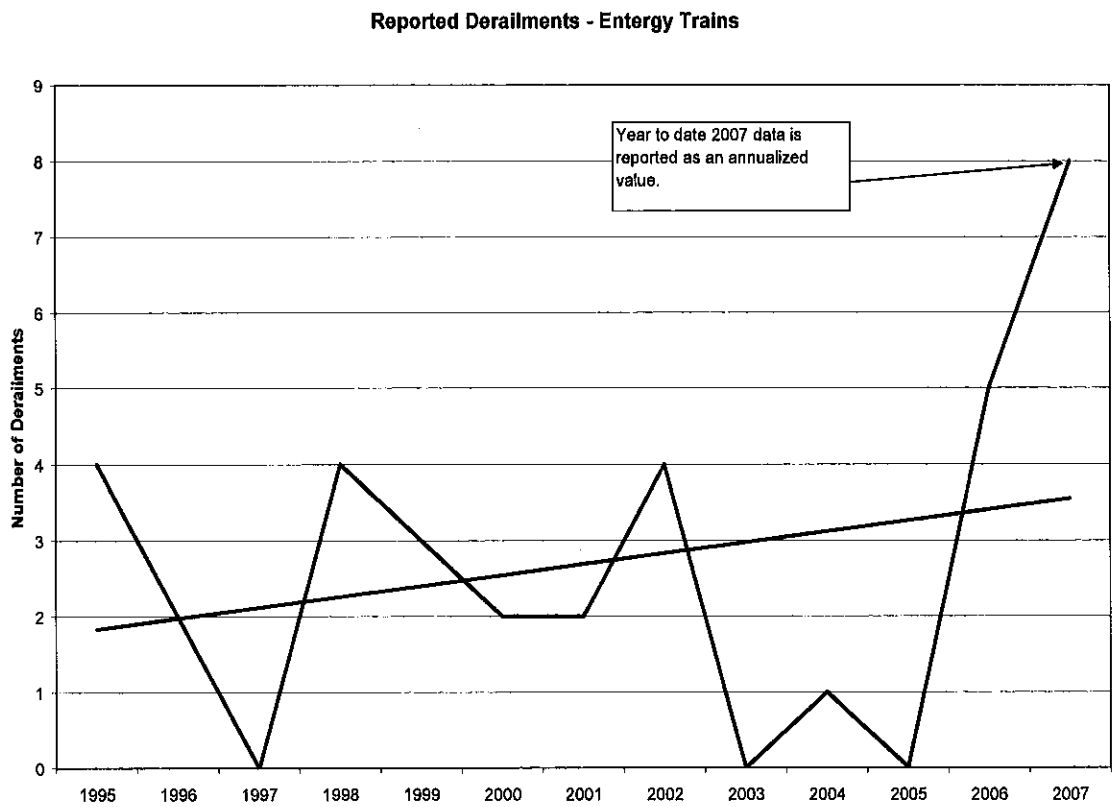
volumes of all commodities being shipped. The railroads' failure to properly maintain their infrastructure has resulted in slower train speeds, more accidents and substantially more force majeure claims. In addition to derailments, rough track conditions are also causing an increasing amount of damage to shippers' railcars. In the past 5 years, Entergy has experienced two events where one third to one half of the railcars in a train, arriving at an intermediate inspection point prior to destination, were found with significant body damage consisting of bowed top cords, bent side panels and other damage. This damage was obviously the result of either bad train handling or significant track elevation changes over a very short distance, a condition similar to a pothole condition of a street or highway, which causes the cars to "hop" on the track and can cause severe damage to the cars without actually derailing the cars. Before these two events, Entergy had not had a single in route damage report since Entergy's first coal movement in 1979.

Based on UP's own accident reporting data submitted to the Federal Railroad Administration⁵, UP has experienced an increase in the number of train accidents caused by defective track.

⁵ Source: <http://safetydata.fra.dot.gov/OfficeofSafety/> (Option 1.03)



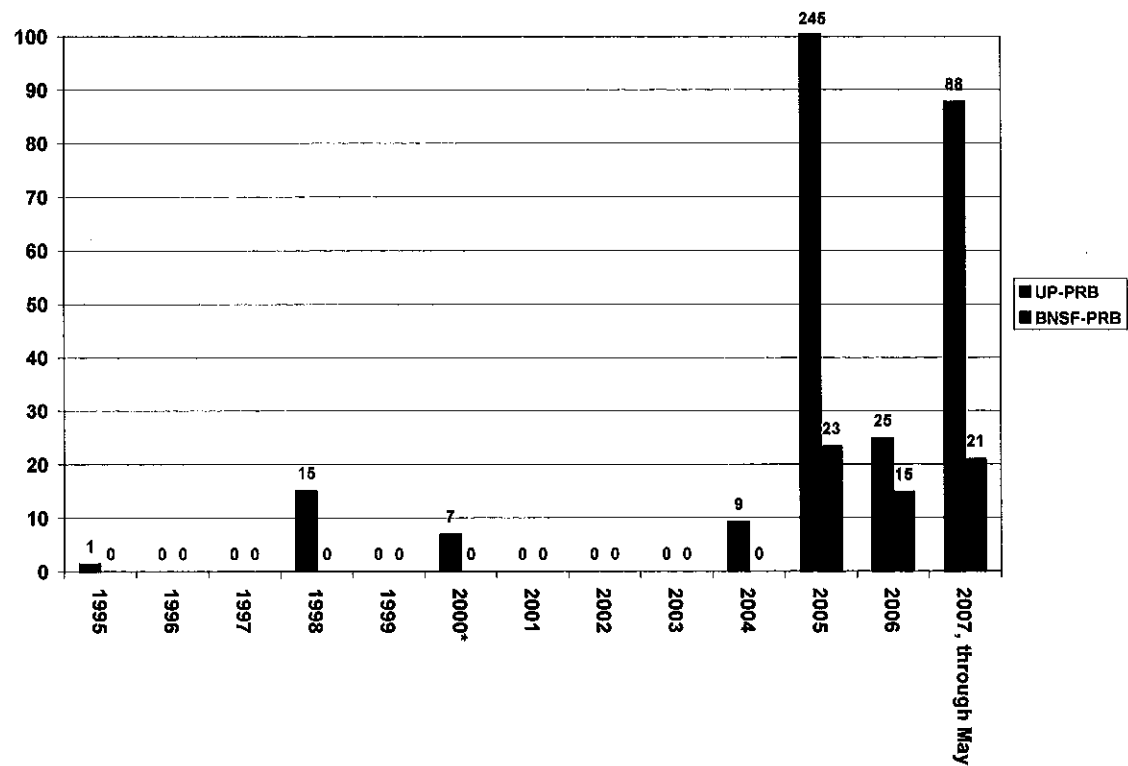
This trend increase is approximately 30% over the 1990 to 2006 time period. For the same time period, BNSF reported accidents caused by defective track at a fairly constant level. A solid well maintained infrastructure is an absolute necessity to providing reliable transportation service. Increased incidences of accidents are also supported in the number of derailments experience by Entergy's trains. While the historic trend in increased derailments is almost 6% per year, what is most remarkable is the dramatic increase from 2005 to present.



Additionally, there has been a disturbing increase in the frequency Force Majeure claims related to coal transportation service. Prior to 2005, Entergy received only EIGHT (8) Force Majeure claims from the railroads, which (not including the claim relating to the 100-year floods in the Midwest) had an average duration of roughly 4-5 days. Even the Force Majeure claim relating to the 100-year floods lasted only about six weeks. Since 2005, Force Majeure claims from the railroads have increased

astronomically compared to the historical rate⁶. In fact, railroads have recently begun regularly asserting Force Majeure claims as a basis for excusing their poor performance.

Figure 3 - Days of Force Majeure for PRB trains Impacting Entergy Claimed by the Railroads



Keep in mind that “Force Majeure” is generally meant to provide protection for unforeseen or unusual circumstances which are an exception and not a rule, do not occur on a regular basis and can not be prevented. This increase in the frequency of Force Majeure is a dramatic turn from the way the railroads used to treat the type of foreseen, though uncommon, events that may affect rail service. In the past the railroads were loathe to declare force majeure and used it only in true force majeure circumstances.

Instead, when confronted with bad weather the railroads preferred to retain their make-up

⁶ Days calculated as hours of Force Majeure claims divided by 24. Some Force Majeure claims may be concurrent.
*The Force Majeure Claim listed in year 2000 straddled New Year’s Eve and New Year’s Day, and a few days of the claim occurred in 2001.

rights and would attempt to deliver the coal at later times. Now, in the world where Wall Street is encouraging the Railroads to raise rates – a practice which is no secret to this audience and to the Board – the railroads appear not to be interested in making up lost deliveries to shippers that have long-term contracts (or what are being called “legacy” contracts) with attractive transportation rates set before the recent market price increases. This greater reliance on Force Majeure claims further undermines the reliability of coal rail transportation services.

Another key indicator reflecting the lack of adequate rail infrastructure and the resulting deterioration in the reliability of rail service is the simple fact that railroads are unwilling to provide service guarantees to their customers as it relates to pre-specified performance standards. As indicated in the public pricing regimes of both Railroads, and has been discussed in trade publications, the carriers responding are generally no longer willing to provide any guaranteed cycle times or penalties for not meeting their service obligations. In the past, railroads were always willing to provide some type of service guaranteed cycle time with financial penalties to be paid to the shipper in the form of liquidated damages, etc. However, this practice has been brought to an abrupt halt over the last few years leaving utilities with no certainty of supply and the responsibility of identifying other alternate, less efficient forms of supply and transportation in addition to having to oversize their trainset fleets in an attempt to increase their capacity to offset the longer cycle times.

III. EFFICIENCY OF RAIL SERVICE IS CRITICAL TO AMERICA'S ENERGY SECTOR

The delivery of coal to utilities must be both reliable and efficient. The efficient use of equipment, whether that equipment is railroad or shipper supplied, needs to be optimized as much as possible to obtain the maximum value from the asset. This statement is just as true for track as it is for railcars and locomotives. Reliable service is meaningless unless it includes efficient service. For example, you may be able to rely 100% on 1 ton being delivered in a year, but if your need is 10 tons per year, what value does that level of reliability really provide? The answer is obvious.

Greater velocity and lower density on a track generally will produce greater deliverability. With the movement away from performance standards and guaranteed service levels on the railroads, this could lead to even greater cycle-time increases than currently experienced. The lack of service commitments and higher cycle times has a significant impact on the economics and reliability of providing electric service to our customers. Service expectations impact the amount of equipment that needs to be planned to move the tonnages expected. As cycle times increase, shippers need to purchase and have available additional trainsets to move the required tons. When evaluating new transportation services that lack the types of service commitments that had historically been available in rail transportation contracts, utilities are faced with a double-edged sword. The new arrangements offer less protection from service disruptions and no guarantees that the tons lost will ever be made up, and the required

costs of carrying more equipment increase the overall cost of the transportation service and ultimately the cost of electricity to our consumers. Worse yet, there is no guarantee that the railroads will allow the additional sets in service and the railroads may still be unable to deliver the required coal even with the additional equipment.

If all expiring agreements are replaced with public pricing document agreements having no performance measures and the suggested impact to cycle-times are similar to Entergy's experience, utilities would need to increase the total trainset count from the current level of approximately 600 trainsets to 1,050 trainsets just to move the current production rate of approximately 360 million tons out of the southern PRB annually. This would likely create increased congestion and place an exponentially heavier burden on an already deteriorating infrastructure that is not capable of handling this level of increased activity without continued investment in capacity and maintenance.

IV. SUMMARY AND RECOMMENDATIONS

Entergy appreciates the Board's interest in the efficiency and reliability of rail transportation for energy supply. We agree with the Board's determination that energy supply is a critical resource for this Nation. It is Entergy's belief that without outside influence, rail transportation of coal will become an unreliable and inefficient resource for utilities.

In order for this Board to provide greater oversight on railroads' performance as it relates to commodities critical to this Nation's security, it is imperative that specific performance metrics be developed that provide the Board and shippers with information that will enable them to identify service problems in their developing stages – rather than after a service crisis has already emerged. These metrics should be specific to identified critical commodities, such as energy products, and should provide separate monitoring capabilities from the general freight commodities. These metrics should be reported and made available to the public.

To make any metric valuable, there needs to be accountability. There should be some benchmarks established for the metrics that enable all stakeholders to identify when performance is below an acceptable level. For example, it may be possible to identify system velocity levels that would warrant a service review. Alternatively, a service review could be triggered by metrics relating to train loadings or dwell time statistics.

We have addressed previously in this statement that the railroads', at least the western railroads, are removing any meaningful performance measures from future coal transportation service tariffs or agreements. In Entergy's situation, this movement could result in the acquisition of 75% more railcars than it currently controls to move the same volume of coal. This is not a movement toward a more efficient and reliable operation but instead is simply a shifting of the responsibility for reliable supply from the railroads to the utility shippers. It is crucial for this Board to develop, monitor and administer adherence to these measures.

What type of measures could be developed and reported that would provide reasonable insights to how critical commodities are moving on the rail systems without overly burdening the railroads in reporting efforts? Measures could be developed in the following areas:

- Comparison of actual deliveries to requested deliveries
- Unit train velocities
- Number of unit trains or railcars in service for the commodity
- Primary route loadings (how much traffic is on route)
- Magnitude of empties waiting for loads

This effort of oversight of efficiency and reliability needs to be coordinated with the Boards' initiative in STB Ex Parte No. 670, to establish a Rail Energy Transportation Advisory Committee. A Rail Energy Transportation Advisory Committee could provide further guidance on measurements that would provide STB and the energy market participant with valuable information without being too burdensome for the railroads.

In conclusion, the Board should not be comfortable that the issue of rail reliability has improved due to the fact that utility stockpiles appear to have improved recently with adequate supplies to meet the peak seasonal needs of utilities. This improvement has largely been the result of the numerous steps that utilities took to conserve coal and obtain alternate supplies of coal over the course of the last two years. As previously indicated, the railroads have not resolved their delivery problems. Deliveries continue to be less than the contractual

commitments made to Shippers. A single event could put the railroads and utilities back in a situation similar to the fall of 2005, with disastrous results for everyone concerned.

If this Board truly believes that energy sources are critical to this Nation's security, then it would seem important to identify all those qualifying commodities, determine the rail routes that these commodities travel and have a policy in place that would keep these commodities moving, even under rail disruption times. For these commodities, it may be insufficient to rely on the railroads' own prioritizing of traffic to satisfy national security.

In sum, rail deliveries of coal are an integral part of electric reliability. Adequacy of long-term coal deliveries is fundamental to the cost-effective operation of the bulk power electric system. The U.S. electric system will likely operate with sufficient reserve margins to meet peak loads, despite the rail situation, although the recent rail delivery problems highlight the fact that a lack of reserves exists within the rail network. This absence of slack rail capacity puts the electric industry at risk. The reality is that railroads need to enable utilities to maintain sufficient reserves to meet surging and/or growing demand.

* * *

Thank you again for your careful consideration of these important issues.