

SURFACE TRANSPORTATION BOARD
Rail Energy Transportation Advisory Committee

MEETING MINUTES
October 2, 2014

The Surface Transportation Board's (STB) Rail Energy Transportation Advisory Committee (RETAC) convened at STB Headquarters in Washington, D.C. on October 2, 2014. Co-Chair Darin Selby called the meeting to order at 9:00 a.m. The meeting agenda and copies of referenced documents presented during the meeting available on the STB's website at <http://www.stb.dot.gov/stb/rail/retac.html>.

Meeting Attendance

Surface Transportation Board:

Daniel R. Elliott III, Chairman
Deb Miller, Vice Chairman
Ann D. Begeman, Board Member
Christopher Diamond, Office of the Chairman
Brian O'Boyle, Office of the Vice Chairman
James Boles, Office of the Board Member
Michael Higgins, Designated Federal Officer

RETAC Committee Members:

Michael Wade (for Dave Garin)	Mark Hamilton	Ed McKechnie
John Risch (for Bob Guy)	Bob Hulick	Tony Reck
John Gray	Dan Sabin	Darin Selby
Kareen Gray	Mark Huston	Kent Smith
Jill Harrison	Lee Johnson	Beth Whited
Darryl Haack	Paul Taylor	William Berg
Scott Yaeger	Henry Rupert	Brad Hildebrand
Robert Gabbard	Hank Bauman (attending with Robert Gabbard)	

Meeting Content

Chairman Elliott and Board Member Begeman offered opening remarks. Vice Chairman Miller introduced herself to the Committee and offered opening remarks. Incoming committee members were welcomed and the outgoing members were recognized and thanked for their work on RETAC.

Co-Chairman Selby welcomed the committee, thanking the guest speakers for their attendance and their time spent in preparation for the meeting.

Minutes of the March 6, 2014 meeting were approved.

Secretary/Treasurer Hamilton reported that current available committee funds were \$357.71. Motion was made and approved to assess each member \$100 to replenish the funds. Secretary/Treasurer Hamilton will send out an email to all members directing them on payment of assessment.

Robert Gabbard introduced and welcomed the new members and thanked the departing members for their service to the Committee.

- Paul Taylor (new) National Corn Growers Association, Corn Board Member
- Jill Harrison (new) Alpha Coal Sales, Senior VP and General Counsel
- Chris Marsh (departing)
- Daryl Haack (departing)
- John Soethe (departing)

New members thanked the Board for allowing them to serve on RETAC. Member William Berg announced that he would be retiring from the committee effective at the close of the meeting.

Co-Chairman Darin Selby presented a Review of Performance Measures (copy attached).

Industry Segment Updates

1. Railroads

Member Beth Whited reported that, while rail service has not been up to the quality that some rail shippers have come to expect or that railroads characteristically offer, the railroads continue to strive to correct service issues. Continued investments in infrastructure, equipment, and employees are being made in order to address the current service and volume challenges faced by the railroads. Average weekly rail volume was higher in August 2014 than any month since the Great Recession. Coal accounted for more generation in the first half of

2014 than in the previous year. The Class I railroads are projected to spend at least \$26 billion in capital in 2014 and had 5,702 more employees in August 2014 than in January 2014, a 3.5% increase. Government mandated regulations, which come with not only financial but operational costs, are being implemented throughout the railway system. Positive Train Control is being implemented on 60,000 miles of track, and as the implementation continues, significant service disruptions will take place as segments of track are taken out of service for as long as ten hour periods. Proposed operating restraints such as speed restrictions on commodities such as crude oil will also adversely affect the velocity of the network and impact capacity.

2. Utilities

Hank Baumann (PPL) presented the utility update (copy attached). Shale gas coming out of the Utica and Marcellus regions represents 40% of shale production. Despite this, gas prices spiked during the severe winter of 2014. Coal consumption is expected to increase in 2014 due to the severe winter with no significant supply problems in the east. Generators who rely on western coal report plants with less than 20 days inventory, and if service does not improve, the numbers will increase. Cycle times are up which adds to equipment shortages and slower stockpile replenishment.

3. Mines

Member Kent Smith presented an update (copy attached). Mr. Smith reported that poor rail performance was affecting mine production. There continues to be a shift in basins in the U.S. with the Illinois Basin growing while the Central Appalachia Basin volumes decline. Prices continue to decline for coal which has resulted in less production. Export prices are challenged due to demand and lower cost Australian coal in the market.

4. Ethanol

Member Brad Hildebrand presented an update (copy attached). Record corn and bean crops expected in 2014 which is driving increased production. Ethanol demand is good, gas prices are stable and there are currently only 10 ethanol plants idled due to economics. The Chicago gateway is the concern along with Pipeline and Hazardous Materials Safety Administration (PHMSA) rulemaking on tank car standards since 98% of the fleet hauling ethanol are DOT 111 railcars.

5. Rail Cars

Kareen Gray and Robert Hulick presented an update (copy attached). The key drivers of rail traffic have shown positive gains in 2014 with demand up by 3%. Rail car deliveries are

forecasted to be up 20% in 2014 to 64K cars. The fleet continues to age and it is expected that this will drive demand in the 2% range from 2015-2018.

6. Petroleum

Member Lee Johnson presented an update (copy attached). Continued growth is expected in all areas with production growing faster than predicted. Bakken region production is up 20,000 barrels/day month over month. Production has not been impacted by rail service with service improving in 2014. There is concern over ongoing tank car regulations and how the new measures will affect the tank car supply. The petroleum industry continues to work together for the safer movement of crude oil and bringing the number of incidents to zero.

Guest Presentation – Special Topics

John Gray, AAR SVP for Policy and Economics, Rail Energy Infrastructure – Carloads excluding coal and grain are approaching 2006 levels with intermodal above 2006 levels driven by domestic intermodal. Coal and grain loadings continue to decrease but are being offset by increased crude and industrial sand loadings. The growth and change in traffic mix are the key drivers of the rail network. Railroads are working to correct congestion through process change, development of new/improved information technology, increased assets and added infrastructure.

Peter Glaser, Partner, Troutman Sanders, Update on EPA Climate Change Regulation – The CO2 emissions rate rules are very complicated and vary by state. State plans meeting EPA emission rates are due in June 2015 with compliance beginning in 2020. EPA projections for coal use show a decrease in the Appalachia and Western regions with growth in the Interior.

Diane Kearney, U.S. DOE, EIA Energy Outlook Update – Much of the coal-fired capacity retirements occur by 2016 largely because of the combination of MATS, low natural gas prices and relatively low electricity demand. Coal recovers in 2016 based on remaining coal-fired plants running harder to make up generation lost by closings. Natural gas prices are predicted to rise to \$5/MMBtu in late 2014 and 2015. Western coal production will be steady with Appalachian coal production decreasing. Interior coal production is projected to increase. Steam coal exports are projected to increase to both Europe and China going forward while met coal exports recover after 2020.

Additional Matters

- Michael Higgins, DFO, reported two written public comments were received by the STB:
 - Bridger LLC – Petroleum Industry
 - Monroe Energy – Petroleum Industry

The comments were summarized at the meeting and are available on RETAC webpage:
<http://www.stb.dot.gov/stb/rail/retac.html>

- Roundtable Discussion – Member Hildebrand suggested that there is a need for a representative of the frac sand industry on the committee. Discussion ensued by the committee and this will be addressed at the March 5, 2015 meeting.
- The next meeting date was set for **March 5, 2015**, at the STB’s headquarters in Washington, D.C.
- The meeting was adjourned at 1:15 p.m.

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Respectfully submitted,

/s/ Mark Hamilton

Mark Hamilton
RETAC Secretary/Treasurer

Certified by:

/s/ Robert Gabbard

Robert Gabbard
RETAC Co-Chair
December 4, 2014

/s/ Darin Selby

Darin Selby
RETAC CO-Chair
December 4, 2014