

Minutes
Rail Energy Transportation Advisory Committee
March 4, 2009

Rail Energy Transportation Advisory Committee (RETAC) convened at the Surface Transportation Board (STB) offices in Washington, DC, on March 4, 2009. Jeff Wallace and Alan Shaw, co-chairs, called the meeting to order at 9:00 a.m. The meeting agenda and copies of documents presented during the meeting are attached separately to these minutes.

Attendance:

Surface Transportation Board:

Charles D. Nottingham, Chairman
Francis P. Mulvey, Vice-Chairman
W. Douglas Buttrey, Commissioner (absent)
Scott Zimmerman, Designated Federal Official

RETAC Members:

Jeff Wallace, Co-chair
Alan Shaw, Co-chair
David Rohal, Secretary/Treasurer

James Redding	Ed McKechnie	Darin Selby
Susan Arigoni	Betsy Monseu	Dan Sabin
Dan Kuehn	William Berg	Bruce Blanton
Marc Spitzer	Stevan Bobb	Robert Gabbard
Henry Rupert	Sameer Gaur	John Hull
Mark Huston	Daryl Haack	Darrell Wallace

STB Chairman Nottingham and Vice Chairman Mulvey welcomed the committee with remarks on the challenging economic times and appreciation for continuing to volunteer time and energy to helping the STB understand the issues in the energy and rail transportation sectors.

Chairman Nottingham noted that Commissioner Buttrey had announced his resignation and would be leaving the Board later this month. Nottingham also said that a UTU representative would be joining RETAC replacing deceased member James Brunkenhoefer, whom we remember well.

Minutes of the RETAC meeting on December 2, 2008, were approved.

Committee treasurer David Rohal reported that before paying for lunch, the committee fund held \$2,345.

The meeting was dedicated primarily to presentations and sub-committee discussions including open discussion of the impacts and implications of the changing demand for coal and ethanol. Presentation documents are attached.

Presentation of White Paper – Capacity Subcommittee (see attachment)

Henry Rupert, chair of the Capacity subcommittee, and several subcommittee members led a presentation of the issues and recommendations of their draft white paper. The issues discussed include 1) investment risk in the energy supply chain, 2) the desire for flexibility in the transportation infrastructure and the challenges facing railroads considering capacity investments, and 3) bridging the investment gap.

Rupert noted that the current economic downturn is symbolic of the risks of investment in long-lived assets and noted that obvious linkage between energy policy and investment decisions. For example, there is uncertainty about the demand for coal against other potential feedstocks such as biofuels as well as uncertainty about the relative demand for coal from different coal-producing basins. How do railroads know where to increase capacity and which lines will still be relevant?

Coal receivers are driven by world-wide market for BTU's, but railroads are challenged to get signals from experts to invest when there is so much doubt about the future. Mining is also a high fixed-cost industry with barriers to exit and uncertainty from carbon regulation, etc. Railroads used to be able to invest based on long-term contracts of up to 20 years, but contracts of 3-5 years are now considered "long-term."

Regulated utilities are expected to maintain a reserve margin and a prescribed cost structure but the context and playing field of the decisions for railroads are not the same.

Export coal is seen as adding volatility to the situation as the comparative economics between U.S. coal and alternatives swing from currency fluctuations as well as underlying supply and demand.

The subcommittee recommends continuing to bring different perspectives together for discussions to improve long-term perspectives especially as related to ensuring adequate investment in the supply chain for energy. The effectiveness of the rail energy supply chain is dependent on commitments from users that support the necessary investments.

After discussion, the white paper was accepted by the full committee as written.

Presentation on STB Rate Study: William Brennan, Office of Economics (see attachment)

STB Economist Bill Brennan presented the recent STB Study of Railroad Rates released on January 16, 2009, which reflects trends in railroad pricing. The trend lines indicate a long-term reduction in real inflation-adjusted railroad rates since the deregulation of the industry by the Staggers Act in the mid-1980's with an increase in rates in the last three years as

productivity gains slowed and fuel surcharges reflecting increased costs were passed along to railroad customers.

Subcommittee reports:

Performance Measures -- Betsy Monseu

Betsy Monseu reviewed the key points from the performance measures this subcommittee has been monitoring from publicly-available data. Coal production is up due to exports but domestic consumption is down 0.5%. Inventories are at historically high levels. The coal supply chain currently has surplus capacity and forecasts are for lower demand in the near-term.

For the first seven weeks of 2009, coal carloads are down three percent compared to the same period last year and overall carloads are down sixteen percent.

Ethanol production exceeds mandated levels while higher feedstock costs and lower petroleum prices are causing economic stress to the ethanol market.

Best Practices – Susan Arigoni (see attachment)

Susan Arigoni presented an assessment of the strengths, weaknesses, opportunities and threats associated with the best practices in management of physical infrastructure, communication, operating practices, and commercial practices. She said this subcommittee had developed an alignment matrix to attempt to narrow down to significant areas for further discussion.

Communications – Ed McKechnie

The communications sub-committee is planning to focus on communicating the developments of the other sub-committees and will start by developing a plan for communicating the insights of the capacity subcommittee white paper.

Transportation Legislation Update: Stephen Gardner, Senior Democratic Staff Professional, Senate Commerce Committee

Stephen Gardner shared his views on the current agenda of Congress as seen through the committee he supports. Among the priorities for this session is the robust, effective oversight of agencies, the economic funding act, STB reauthorization, and the rail safety and Amtrak bills. Included in these priorities is an emphasis on strengthening protections for captive railroad shippers and developing a big picture reauthorization bill that pays for more investment in transportation infrastructure and recognizes the public benefits associated with railroads.

Gardner recognized that many initiatives would be competing for attention on the Senate floor and that it will take a consensus to move any bill. He expects a lengthy debate on health care will consume a significant amount of time and energy of legislators.

General Discussion

The committee discussed several developments that were affecting the coal and ethanol supply chains including the dramatic reduction in the price of natural gas causing some substitution of fuel for electrical generation. Similarly, wind turbines are entering the market for the supply of energy. In addition, demand for energy is being depressed by the unprecedented drop in economic activity.

Many members see that continuing to share perspectives on these significant trends is a continuing benefit of RETAC.

The committee discussed future agenda topics including a presentation on the nation's energy policy, insights into the congressional transportation agenda in the House of Representatives, and a deeper discussion of the trends in the ethanol market.

The next RETAC meeting will be Thursday June 11, at 9:00 a.m., at STB headquarters in Washington, DC.