

Minutes  
Rail Energy Transportation Advisory Committee  
June 12, 2008

Rail Energy Transportation Advisory Committee (RETAC) convened at the Surface Transportation Board (STB) offices in Washington, DC on June 12, 2008. Jeff Wallace and Alan Shaw, co-chairs, called the meeting to order at 9:00 am. The meeting agenda and copies of documents presented during the meeting are attached separately to these minutes.

STB Vice Chairman Mulvey and Commissioner Buttrey welcomed the committee and announced two new members, David Shipman from the USDA and Colonel John Wood from the U.S. DOT.

Minutes of the RETAC meeting on March 6, 2008, were approved.

Committee treasurer David Rohal reported that after paying for lunch, the committee fund held \$2,769. Members who have not yet contributed should administer the \$200 invoice for the committee dues.

Most of the meeting was dedicated to member presentations and committee discussions on respective roles in the energy supply chain. Notes of discussion points and the presenters' views are represented below. Presentation documents are attached.

Western Railroad Coal Transportation – Stevan Bobb, BNSF

From a BNSF perspective, the drivers of capacity are People, Locomotives, Equipment and Track. The capacity of each driver can be flexed when demand increases, but with some lead time required.

People can be increased in approximately six months; locomotives in 18 months; track capacity can be added in approximately 18 months; and equipment which is now owned 80% by customers, can be added in a similar timeline.

BNSF utilizes a number of planning processes with extended horizons. One example of a long-term capacity requirement analysis is the work CANAC did for the joint line into the Powder River Basin.

For BNSF capital, BNSF has developed a five-year rolling plan with line-of-business and milepost specificity that is approved by the annual capital planning process and adjusted monthly.

Monthly forecasts by producers and nominations by receivers are used to allocate joint line train loading slots. Weekly conversations between producers and the railroad coordinate maintenance planning.

Tactical conversations are conducted every four hours by dedicated desks to continually update the operating plan for the next 36 hours so that 65 trains per day can be loaded off the joint line. A service interruption or mine issue will affect the supply chain within 6-12 hours. The planning process can deal with some daily variability with landing spots for trains both on BNSF and on mine property. The current joint line capacity plan is based upon producers' forecasts for loading 500 million tons per year.

Vice Chairman Mulvey asked what could be done to ensure the nation is not harmed by the lag in adding new capacity. Mr. Bobb replied that railroads can handle more business, however, encouraging more capacity faster is something that could be helped by a proposed investment tax credit for new capacity. In the short term, track capacity is not a significant constraint as after 2008 construction, the joint line will have capacity to handle about 425 million tons.

Mr. Bobb noted that the working relationship between coal producers and transporters is largely driven by serve mutual customers and is not a commercial relationship, noting remarkable cooperation on processes, spare cars, matching locomotives, operational analytics, and other asset optimization.

From a process assessment perspective, operating adjustments and maintenance planning coordination are working well; opportunities remain for mine balance timelines, sharing of stockpile levels, reducing unloading delays and outages at dumping locations, and developing best practices for unloading.

#### Western Railroad Ethanol Market Overview; Paul Hammes, Union Pacific

Ethanol production is approximately 8.5 billion gallons today and is expected to be 15 billion gallons by 2015 with demand legislated to reinforce renewable and non-imported energy. Eighty percent of ethanol is produced in the Midwest and consumption is concentrated in California, Texas, the Northeast and the Southeast.

Dried distiller grains, a by-product, also is transported by rail but goes into feed markets instead of the energy supply chain.

While ethanol shipments have grown significantly, they represent less than one percent of total rail shipments and coal grew more in absolute numbers than ethanol and DDG's combined.

The key to the ethanol supply chain is rail infrastructure on the site of the ethanol facility so that finished material can be stored in a railcar. Much ethanol moves in manifest train service in small quantities but unit trains are increasingly being put in service to take advantage of greater equipment efficiency.

Unloading terminals were initially a constraint but they are quickly developing. Currently there are plenty of tank cars as the construction of some plants has been delayed due to changes in core economic conditions especially the price of corn.

Some political concerns exist about the use of corn as a fuel instead of food, but many folks see biofuel use as a minor factor behind the price of oil, drought conditions in some parts of the world, political factors, and agriculture processes which produce lower yields. In addition, some biotech firms are suggesting that yields will increase from 152 bushels per acre to nearly 300 bushels per acre with the next generation of seed corns.

Progress has been made in addressing constraints on the ethanol supply chain using better resource and capacity planning, investments in terminal capacity, and by implementing rail access approval processes so that new plants do not impede the flow of trains on corridors with heavy traffic. On certain corridors, Union Pacific requires 9000' sidings with power switches and enough trackage on the production site to chamber trains.

Alternative Fuels – James Redding, Aventine Renewable Energy, Inc.

Mr. Redding showed the map of ethanol-producing facilities both planned and in operation. Plants have been built where corn is, noting that some plants have started to be built in Texas where the by-products can be used in animal feed.

The legislated renewable fuels standard schedule sets the demand for ethanol, and all modes of transportation are used although railroads currently handle approximately 70% of ethanol, 217,000 cars this year. Trucks handle markets up to 250 miles away and barges handle flows where they can. Ethanol is a commodity and will move by the lowest priced form of transportation.

A 100-million gallon ethanol plant will produce approximately 10 tank cars of ethanol per day along with nine cars of DDG's.

Capacity at destination has limited the growth of unit trains but destination facilities that can handle unit trains are coming on line. Often destination terminals transfer the ethanol into barges for entry into the fuel supply chain.

The co-chairmen encouraged committee member participation in the sub-committees and noted that the sub-committees gave each individual an opportunity to raise and communicate ideas.

Subcommittee reports:

Communication between shippers, receivers and railroads - Joe Hopf

The sub-committee on communication held a conference call on May 15 and met in Washington June 11. It is looking at the whole supply chain attempting to identify inefficiencies and potential improvements.

The sub-committee sees four phases in the project leading to a white paper discussion of their findings. They expect to be able to present an outline at the next meeting.

This sub-committee is looking for a representative of the eastern railroads and the biofuels industry.

#### Capacity planning - Henry Rupert

The sub-committee on capacity planning met in Chicago and reviewed contemporary academic papers on capacity. The conclusion reached is that additional capacity is required and a funding gap exists which may be partially addressed by investment tax credits.

Another conclusion is that the needs of the energy network do not always match the attributes of the rail system. The sub-committee identified gaps in reserve capacity, especially capacity to cope with sourcing shifts, lead times, and a number of other areas. Challenges include communications, productivity, technology, and regulatory uncertainty. The challenge is that the uncertainty of future sourcing does not allow utilities to plan for reserve capacity with railroads.

Vice Chairman Mulvey noted that white papers are frequently useful in the legislative process and this RETAC sub-committee might want to make a contribution.

RETAC co-chairman Shaw noted that current changes in the coal landscape in the east were certain to challenge the reliability of coal flows. He noted that production was down, consumption was up, and that exports had increased by 70 percent.

Likewise CSXT reported that in response to the import surge, CSXT has added railcars, increased the number of locomotives dedicated to coal, increased the crew resources and is in the process of planning for additional capacity. It was noted that a corresponding increase in tons produced will be required to prevent utility stockpiles from further decline. Currently, CSXT has a small number of coal cars in storage.

#### Best Practices - Susan Arigoni

Unable to attend; no report.

## Performance Measures - Betsy Monseu

The sub-committee on performance measures has significant railroad participation but would like more participation from biofuels representatives.

The sub-committee reviewed the railroad performance measures currently available. Six railroads make weekly reporting to the AAR publicly available. Railroads also make metrics and additional information available to customers through their websites. More focused information is available to individual customers who enter through secure portals.

Not all railroads produce the same kind of reports. The sub-committee reports that there may be benefit in comparing the differences.

The sub-committee reported a consensus that more transparency is beneficial and broader measurements are desirable, but valid concerns exist about confidential or commercially-sensitive material.

The sub-committee surveyed members of RETAC and the results of the survey responses were reviewed.

## Update of the Christensen Study on Rail Competition – Mark Meitzen and Joe Swanson

Mr. Meitzen briefed the STB commissioners and RETAC on the status of the study explaining what has been done so far and how the study was being framed.

The study is being performed in three parts; qualitative research, quantitative research, and final report preparation. The final report is expected in early November, 2008.

Stake holder input has been used to frame the research plan by providing a macro overview of the industry and a context for econometric analysis. The primary research issues have emerged as capacity and investment, economic analysis of policy proposals mentioned in the GAO study, and assessing the extent of captivity, market power, and investment requirements.

Important issues outside the scope of the study include service quality, cost shifting, and shipper access to rail networks.

The study is in the process of estimated econometric models with a goal of an academic-quality study that is useful and accessible by the use of maps and charts and with application to policy analysis. Further information is available at [www.lrca.com/railroadstudy](http://www.lrca.com/railroadstudy).

Discussion topics at the next meeting will include subcommittee reports, the Cambridge Systematics report on railroad capacity, an EIA projection of coal flows, and presentations from House and Senate staff members on the development of legislation.

STB Vice Chairman Mulvey and Commissioner Buttrey thanked the committee and especially the presenters for the fact-filled and open discussion and a very informative meeting. The next meeting is scheduled for September 17, 2008.