Meeting Minutes

Surface Transportation Board

Rail Energy Transportation Advisory Committee

October 19, 2017

Washington, DC

The Surface Transportation Board's (STB) Rail Energy Transportation Advisory Committee (RETAC) convened at STB Headquarters in Washington, DC on October 19, 2017. Co-Chairmen Rob Hardman and George Duggan called the meeting to order at 9:00 a.m. The meeting agenda and copies of referenced documents presented during the meeting are available on the STB's website at:

https://www.stb.gov/stb/rail/retac.html

Meeting Attendance

Surface Transportation Board:

Ann Begeman, Acting Chairman

Deb Miller, Vice Chairman

Michael Higgins, DFO

RETAC Members

Rob Hardman	George Duggan	Daniel R. Sabin
Russell Epting	James Rader	Robert S. Hulick
Ginger Adamiak	Darin Selby	Mark Huston
Barbara Porter	Dan McLaughlin	Ray Shepherd (for Scott Yaeger)
Bob Guy	Brian Fuller	Tony Reck
Kent Avery	Lee Johnson	Jeff Eliason
Sean Craig	Mark Hamilton	Ed McKechnie
Doug Noem	Dennis Rackers	Karen McClure

Meeting Content

STB Acting Chairman Ann Begeman and Vice Chairman Deb Miller welcomed the committee. RETAC Co-Chairmen George Duggan and Rob Hardman welcomed the committee and thanked the members for their efforts in preparation. Mr. Duggan and Mr. Hardman also welcomed RETAC's four new committee members: Doug Noem of the South Dakota Corn Growers

Association, Kent Avery of PBF Refining, Ginger Adamiak of Kansas City Southern, and Jeff Eliason of CHS, Inc.

Federal Advisory Committee Update

Ms. Alison Graab of the STB's Office of Proceedings summarized the process for disbursing RETAC members' personal funds to cover committee incidentals and announced the elimination of the Treasurer position from RETAC.

Railroad Performance Metrics

Member Ed McKechnie of WATCO Companies reviewed measures of railroad performance (copy available here). Mr. McKechnie reported that there has been a substantial reduction in coal volumes from 2011 to 2017: coal carloads are down 3.6 million annually—a 50% reduction in 7 years. As a result, railroads have considerable "stranded assets" in coal regions where there has been a substantial reduction in coal traffic. Metallurgical coal traffic, however, is up 10 million tons from 25 to 35 million tons with exports going to Japan and Korea. Additionally, in 2017, total coal carloads are up compared to 2016—which was the first year that coal was not the dominant source of energy generation.

Industry Segment Updates

1. Railroads

   Member Darin Selby presented the railroad industry segment update. Mr. Selby reported that the train accident rate was the lowest ever in 2016. With respect to traffic volumes, the Federal Highway Administration is forecasting that U.S. freight tonnage will rise 41% by 2040 with railroads having the ability to efficiently meet this demand. So far, in 2017, coal carloads are down 41% from their peak in 2008 and down 24% from 2014. U.S. Class I railroads terminated nearly 53,000 carloads of crude oil in the second quarter of 2017, which is the fewest for any quarter since the first quarter of 2012. Total annual crude carloads are estimated to be about 200,000, down from 540,000 in 2014. Railroads originated a record of more than 154,000 carloads of industrial sand in the second quarter of 2017, and sand shipments are expected to continue to grow. Mr. Selby also noted that the railroads responded quickly and efficiently to the two recent hurricanes experienced in the Gulf Coast and Florida.

2. Utilities

   Member Sean Craig provided an update on the utilities industry (copy available here). In 2017, coal fired generators are primarily located in the Midwest, which has 56% of all coal-fired generators. The remaining coal-fired generators are scattered across the West, which has 22%, and the South and Southeast, which each have 11%. Coal inventories are down this year as compared to last year with an average of 35 days of inventory.

3. Mines
   Member Barbara Porter gave a brief overview of U.S. coal production by basin (copy available here). U.S. coal production is up 12% over last year, and domestic coal demand is up 7% over last year. Coal export prices are increasing slightly, and coal export demand is up about 23 million tons with about 15 million in thermal and just under 9 million in metallurgical. It is believed that 2016 was the floor on coal values with $17 per ton on thermal coal and $90 per ton on metallurgical coal. Currently, power sector coal stocks are decreasing, and U.S. natural gas storage is increasing.

4. Ethanol/Biofuels
   Member Mark Huston provided an update on the ethanol/biofuels industry (copy available here). In 2017, corn production in the primary corn producing states is down due to weather related conditions, particularly given the wet planting season experienced in Missouri, Illinois, Indiana, and Ohio, as well as the dry conditions experienced elsewhere. However, overall corn production is strong. Train speeds for ethanol have diminished in 2016, but are still better than the lows experienced in 2014. In the past few months, rail service has not been an issue, but the industry is starting to see delays on interchanges between the carriers. The carriers also are continuing to push freight rates on almost all commodities, which has prompted shippers and receivers to seek alternate routes and modes, such as trucks and barges.

5. Oil Segment Update
   Member Lee Johnson gave an update on crude oil production (copy available here). Crude oil inventories remain at high levels, and crude oil prices currently remain relatively low and volatile. The U.S. land rig count is down 53.1% from the 2014 peak, as compared to being down 75% at the last RETAC meeting in April 2017. No new wells have opened since April 2017, and existing wells are being re-exploited with a different sand grade to obtain additional oil. U.S. production has declined 1.7% from July 2015 to July 2017. Current economics favor transportation by pipeline over rail transport, which has resulted in crude-by-rail volumes declining to early 2012 levels. Consequently, large rail terminal investments currently are operating at less than capacity or are being closed. The Lac-Megantic incident in July 2013 was a significant game-changer, which has in part resulted in the near elimination of crude-by-rail. The Dakota Access Pipeline also diverted much of the crude previously transported by rail.

6. Railcars
   Member Bob Hulick presented an update on railcars (copy available here). In September 2017, industrial production increased to 60.8, indicating expansion among the manufacturing sector. Summer heat has caused utilities to increase output in recent

months, but mining output has slowed in recent months. Through 39 weeks of 2017, total traffic is up 3.6% year over year. Train speeds have slowed slightly compared to 2016, but most Class I railroads are still above the lows seen in 2014. As train speeds have slowed, dwell times have picked up. Though not near the levels of 2014-2015 peaks, orders and backlogs have increased in Q2 2017. Railcar deliveries are expected to reach their near-term trough in 2017 and 2018 before slowly climbing back above 50K per year in the next 2-3 years. Under FAST Act, the number of year-end 2016 cars that need to be replaced or retrofitted to DOT-111J or DOT 117R for (1) crude is 12,778 by May 1, 2025; (2) ethanol is 26,795 by May 1, 2025; and (3) other flammable liquids is 36,213 by May 1, 2029.

Summary of Written Public Comments

Alison Graab reported no public comments were received.

Next Meeting

It was decided that members would confer by email and coordinate with the STB Board Members to set a date for the next meeting. It was suggested that another field trip be considered, perhaps with a coal burning utility and an ethanol plant, possibly in the Omaha, Nebraska area.

Approved by:

/S/*George Duggan*
RETAC Co-Chairman

/S/*Rob Hardman*
RETAC Co-Chairman