

Draft Notes of May 20, 2019

Surface Transportation Board

RETAC Meeting May 15, 2019

Washington, DC

The Surface Transportation Board's (STB) Rail Energy Transportation Advisory Committee (RETAC) meeting commenced at 9 AM at the STB Headquarters in Washington, DC, with opening remarks by Chairman Ann Begeman, Vice Chairman Patrick Fuchs, and Board Member Martin Oberman.

Meeting Attendance

Surface Transportation Board:

Ann Begeman, Chairman

Patrick Fuchs, Vice Chairman

Martin Oberman, Board Member

Kristen Nunnally, Designated Federal Officer

RETAC Members:

George Duggan, BNSF – Committee Co-Chair

Emily Regis, Arizona Electric Power Coop.

Barb Porter, Arch Coal Sales Co.

Robert Hulick, Trinity Industries

Steve Ewers, Norfolk Southern Railway

Phillip Obie, Santee Power

Brad Hildebrand, Cargill

Kent Avery, PBF Refining

Mark Huston, Louis Dreyfuss

Scott Yeger, Peabody Energy

Ginger Adamiak, Kansas City Southern

Mathew Noter, Department of Energy

Linda Brandl, Union Pacific

James Rader, Greenbrier Management Services

Amy Homan, IANR-Sub Secretary

Brian Fuller, Southern Co. Generation –
Committee Co-Chair

Bette Whalen, Lower Colorado River Authority

Anthony Reck, Paducah & Louisville Railway

Garrick Francis, CSX

David Owen, TVA

Jerry Tamborski, Hess

Bruce Blanton, Department of Agriculture

Jennifer Hood, Contura Energy Services

Jeff Eliason, CHS

Karen Burchfield, BNSF

Ed McKechnie, Watco

John Risch, United Transportation Union

Wes Lujan, Union Pacific

Steve Ewers, Norfolk Southern Railway

The meeting agenda and copies of referenced documents presented during the meeting are available on the STB's website:

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

Meeting Content

RETAC Co-Chairman Brian Fuller thanked all for attending and welcomed the new Board members and new RETAC member Emily Regis from Arizona Electric Power Coop.

Preliminary Matters

RETAC Co-Chairman George Duggan provided an outline of the recent Midwest flooding and the variety of areas deeply impacted.

Member Linda Brandl reported severe flooding was experienced by the UP railroad, its customers, and its employees. The UP east-west mainline was out of service for 13 days, forcing UP to re-route an estimated 50 trains per day to other carriers. The entire railroad network worked together to ensure that freight continued to move throughout the Midwest and across the country, and both UP and BNSF were appreciative of the collective behavior of the entire rail industry. Flooding in the Mississippi River region continues to be of concern, but all UP routes were reopened.

A BNSF video discussing the impact of the flooding throughout the Midwest was shown. Collaboration and pre-event planning between BNSF and its coal customers was a key factor to ensuring energy production saw minimal impact. Five subdivisions remain closed on BNSF, due to significant repair work still to be completed.

BNSF and UP representatives commented that some flooding is anticipated every year, but 2019 has been excessive in nature. Preplanning mentioned in the video was completed both prior to the flood event starting with preventative work, and as the water was rising both railroads worked closely with customers and other railroads.

BNSF and UP representatives reported that an estimated 250-350 trains a day were impacted in either a minor or major way.

Member Brian Fuller added they are in the process of rebuilding inventory and are 10-20% behind where they normally are at this point of the year. He also reported that the railroads are working with their customers to ensure the makeup inventory delivers to them at a level that the customers are able to receive versus dumping all the inventory on them in a single month. Therefore, getting inventory levels up will take several months. The current low price of natural gas is helping to replace some of the missing coal inventory.

Both BNSF and UP reported that they continue to raise track bed in appropriate areas along with communications buildings to reduce and eliminate future flooding events. Member Mark Huston, Louis Dreyfus, added that one area not being highlighted is the impact of the flooding on the barge/tow boat capabilities to move from St. Louis to Minneapolis due to Mississippi River flooding, and the effect this has on the fertilizer and aggregate markets. Mark further explained that, although counterintuitive to having higher water, the impact of the flooding on the lock and dam is what inhibits the barges/tows from being able to navigate the river system.

Industry Segment Report

1. Railroad Industry Report

Member Ed McKechnie reported a 37% reduction in train accidents from 2000-2018 and a 49% reduction in railroad employee injuries over the same period. When compared to other industries, railroads are safer than most. The railroad industry is seeing a shift in coal's share of electricity generation from 52% to 27% from 2000-2018. Over this period, some coal use was replaced with natural gas and renewables, use of which increased from 16% to 35% and from 2% to 10%, respectively.

Members David Owen and Brian Fuller commented that this shift is due to price and renewables replacing coal due to regulation and environmental impact, along with no real growth in the industry demand. There is also a resiliency impact on the industry, as natural gas is relying on the just-in-time pipeline movement, whereas coal has inventory on hand that can be stored and used for instant demand needs.

The industry feels this downward trend will continue for domestic coal.

Member Steve Ewers commented that railroads are seeing strong performance from export coal. Member Garrick Francis stated that 2018 export coal revenue exceeded domestic revenue.

CSX and NS both reported they will continue to evaluate the demand trends by customer and adjust their railroad networks as much as possible, noting that railroads make 30- to 40-year capital investments, so it's challenging to react to market adjustments and there is a need to ensure the export movement is long term. Mr. McKechnie pointed out that the recession of 2009 shifted the country from coal to natural gas and renewables and feels there will need to be another major disruption to the energy sector to shift the current trend again.

U.S. Industrial Sand carloads have sharply decreased in the last year and a half. Both rail and fuel industry representatives confirmed that the decrease is primarily due to the shift from Wisconsin's northern white sand to Texas's brown sand supply. They added that the cost to mine and transport white sand from Wisconsin is substantially more than the cost to mine and transport the Texas brown sand from the source currently being utilized and that the production loss is not great enough to warrant the supply shift back to white sand. All representatives predicted the trend would continue in this downward direction.

U.S. carloads of ethanol through 2017 have somewhat leveled off as the industry has matured and subsidies have been eliminated.

Railroad spending on infrastructure and equipment has leveled off over recent years at approximately \$24.5 billion annually, as reported for Class I railroads. With Class II and III railroad figures included, the spending would be significantly higher.

Member Brad Hildebrand asked if the railroad industry would provide the amount of money spent on railroad infrastructure and equipment versus buying back stocks over recent years.

Railroad average train speed and dwell time slides showed improvement by the network overall. It was noted that each railroads' performance should be compared against its prior performance rather than the performance of other railroads.

Rail representatives noted that velocity and dwell time are important measures when working with customers to even out the variability and review and benchmark performance. All recognized that customers normally have too many railcars in the rail network when the railroads are running well, but they need these “excess” railcars in the network when there is a disruption, such as weather. On-time performance and measuring reliability is felt to be the most important factor to energy customers. There was extensive discussion from the group around railroad service variability. All parties agreed there needs to be an accurate forecast from customers so railroads can design efficient services around the forecast. A high level of communication is also key.

2. Mines Industry Report

Member Jennifer Hood reported that the historic flooding caused about 5.5M tons of lost deliveries. Like the railroad reported, some of that would be replaced in future months.

The Port of Hampton Roads Dredging Project will be completed in 4 phases with construction completed in 2025. A one-foot increase in depth equals 4,200 net tons additional cargo intake, which is significant.

Thermal pricing has taken a big hit over the last year. \$80/metric ton is a level where the mines can compete in the global market. Right now, pricing is trending at \$65/metric ton, so they are not able to compete.

Metallurgical pricing has remained stable since 2017 through April 2019.

U.S. supply and demand are basically equal currently. Factors impacting this are reduced overall demand and Russia’s production.

Jennifer Hood stated the west coast export projects are limited due to U.S. mines’ ability to compete in the current global market.

Member Ed McKechnie requested the Board members review how state regulations have impacted the ability of the mines to compete in global markets (particularly Asia).

3. Oil Industry Report

Member Jerry Tamborski reported that world liquids fuels production and consumption are trending upward, basically equal to one another, and are predicted to stay that way through 2020. U.S. crude oil production and exports are trending upward and crude by rail volumes have been trending upward since Q3 2017. U.S. land rig count trended slightly downward in Q1 2019. \$50-\$70/barrel pricing will keep production high, especially as exports are growing.

In 2011, the rig count was 1800-2000, compared to a rig count of 700-800 in 2018. Production is higher with fewer, more efficient rigs working.

Williston Basin crude oil modal share is 75% pipeline and 17% rail. Committee members expressed concern around the State of Washington law reducing vapor pressure levels on existing pipelines that want to increase capacity. These laws could impact pipeline growth and is worth noting it takes 4-6 years to build new versus 12-18 months to expand an existing pipeline. Permian Oil is increasing rail market share due to lack of available pipe capacity.

4.1M barrels per day is produced now, with 2M barrels coming on line in 1-3 years. The 2019 expansion of rail movement in the sector will end in 2020 when new pipelines open.

Oil sector expects brown sand consumption will continue to grow, and white sand will continue to trend downward.

Safety on rail continues to be key to the oil sector.

4. Railcar Industry Report

Member Bob Hulick reported the rail car industry is strong overall; however, strong order activity in 2018 is predicted to slow in 2019. Currently, an estimated \$6B is being invested in railcars and approximately 44K cars are retired annually.

An improving coal market in 2018 likely led to the reduced storage levels of hoppers and gondolas seen last year. Approximately 15-20% of cars in storage are small sand hoppers. However, there has been an increase in coal railcar fleet in recent months and utilization has slightly declined.

The fleet of covered hoppers 3,000 – 4,000cf is approximately 121,000 railcars out of an estimated 571,000 total covered hoppers in service. Frac Sand movement made up approximately 69% of all 3,000 – 4,000cf covered hopper carloads in 2017, so reduction in the usage of northern white sand has impacted this car type significantly.

Tank car: approximately 46% is new DOT 117 tanks. 54% of the crude fleet is DOT 1232. There are no DOT 111 tanks in crude service to date. The 2020 conversion deadline on crude tank cars and the 2023 deadline on conversion of ethanol tanks looks achievable.

An increase in railcar shop demand over the next 5-7 years was reported due to regulatory compliance and required tank car modifications. Tank car shop regulation has limited the industry's ability to utilize short-term/temporary shop contractors to meet the demands of tank car compliance.

5. Ethanol/Biofuels Industry Report

Member Mark Huston reported the corn feed stock carryout projection for 2020 is 2.5 billion bushels. The prediction of 15.8-16 billion bushels of production, with an estimated 14 billion in consumption in the US and 1.4 billion bushels of exports means that the U.S. growers need an additional demand of approximately 0.5 billion bushels. This places pressure on producer net margins, which are currently at or slightly below zero.

Current conventional ethanol storage numbers are at an all-time high, nearing 1 billion gallons with another 900,000 million gallons in temporary "in transit" storage (railcars, barges, etc.). Ethanol train dwell time at origin has continued to move upward while train speeds have remained fairly constant.

The adoption of precision schedule railroading is pushing rail shippers away from unit train shipments towards manifest shipments. Most producers and receivers have spent millions of dollars on infrastructure to handle large train sizes at the railroads' instruction only now to find themselves with little opportunity to recoup their expenses with cheaper shipping costs.

E15 blend conversion is continuing to happen, but the shift from winter to summer blends continues to cause consumer confusion in the marketplace.

Biodiesel production through February of 2019 is slightly up from the previous two years. There is currently no export market for biodiesel.

Member Mark Huston commented that biproducts are 100% manifest and ethanol still has a mix of unit trains and manifest movements. But there is concern that the railroads will continue to discourage unit trains and encourage manifest-size shipments.

The high cost of feed stock and the lack of a blend credit currently has operating margins for biodiesel in the \$0.40-0.50/gallon range.

Railroads have incented the changeover to the new 117 tank cars, which is speeding up the change out to the new fleet. Tank car conversions however do continue to be a challenge. This challenge is primarily due to non-safety (secondary cap chain length or rivet placement) related items in need of slight adjustment.

6. Utilities Industry Report

Member Phillip Obie reported utility stockpiles have returned to normal ranges. Peak stockpile was in 2014/2015 where now the utilities are seeing 45- to 60-day stockpiles, which is below the 5-year average. There has been a shift in mindset, and these historic lows now appear to have become the new normal stock levels.

BNSF and UP's performance was impacted by flooding this year. The supply disruptions drew stockpile levels down even further; however, the expectation is that these shipments will return to normal levels in June.

CSX has reported locomotive and train crew shortages to have negatively impacted its performance. It is also seeing labor turnover, mostly due to retirements, and this is negatively affecting the communication between the railroad and its customer. However, CSX's cycle times have improved in most areas.

NS's new operating plan has proven better results. They are seeing some challenges due to weather, and locomotive and labor shortages, but nothing like their counterparts in the industry.

Other Matters

Summary of Written Public Comments. Kristen Nunnally reported that no written public comments were received.

Roundtable Discussion. All Board members and committee members recognized the efforts of the back-office support personnel and dispatchers of the Class I railroads for their assistance in providing for a speedy recovery during the 2019 flooding events across the country.

Chairman Begeman thanked all committee members for their input to the Rate Reform Task Force.

Discussion of possible dates for next meeting – STB will check calendars and confirm date and location. October 17th is the target next meeting date. The Paducah and Louisville offered to provide a field trip meeting at their location as an alternative to Washington, DC. This would allow the committee an opportunity to see the workings of both a railroad and a utility plant.

By: /s/ Amy Homan (IANR)

RETAC Meeting Notes May 15, 2019

For Daniel R. Sabin, RETAC Secretary

Certified by:

/s/ George Duggan

George Duggan, RETAC Co-Chairman

/s/ Brian Fuller

Brian Fuller, RETAC Co-Chairman