

**Analysis of
Rail Fuel Surcharges
During the Period 2003-2007**

**A Report to
The American Chemistry Council**

Prepared by

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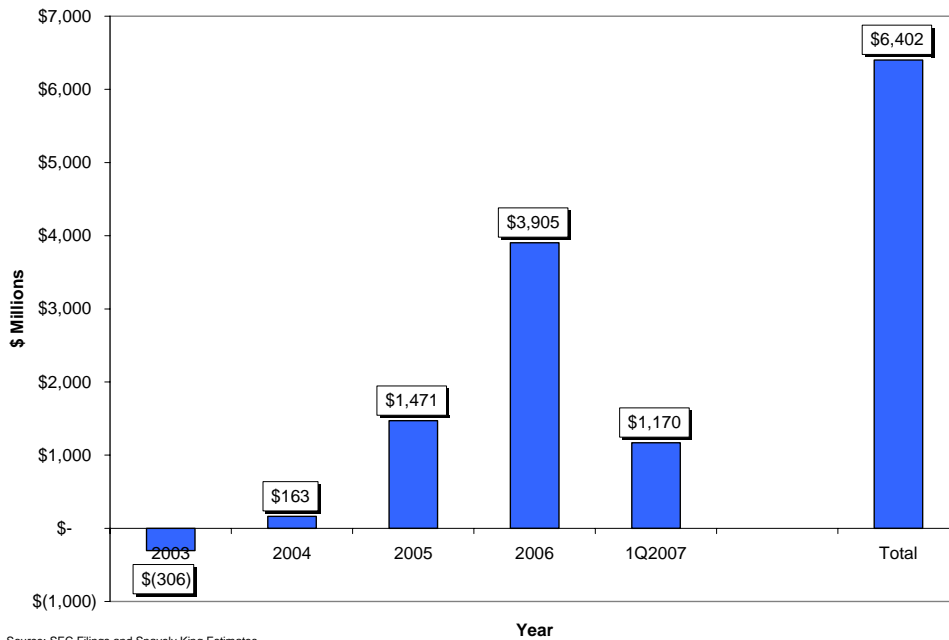
I. Introduction

The American Chemistry Council (“ACC”) requested Snavelly King Majoros O’Connor & Lee, Inc. (“SK” or “Snavelly King”) to analyze railroad fuel surcharge revenue and fuel costs. The focus is U.S. Class I railroads during the period 2003 through the First Quarter 2007 (“Study Period”). The US Class I railroads included in this study are BNSF, CSXT, Kansas City Southern, Norfolk Southern, and Union Pacific¹(“Study Group”).

Snavelly King has previously studied Class I Railroad fuel surcharge programs on behalf of the ACC. Snavelly King’s reports on fuel surcharge were used in the ACC’s filings in the Surface Transportation Board’s (“STB”) Ex Parte 661 Railroad Fuel Surcharges proceeding. In those reports, Snavelly King identified some serious issues with the Class I railroads fuel surcharge process. In this report we show that those defects have persisted for years and have produced a multi-billion dollar over recovery of fuel costs by the major US railroads.

- As detailed in this report we estimate the over recovery of fuel surcharges for the Study Period to be more than \$6 billion

Chart I
Preliminary Estimate of Over Recovery



¹ Two additional railroads have Class I status, the Canadian National (“CN”) and the Canadian Pacific (“CP”) each have a subsidiary that operates in the United States. A large portion of CN and CP’s operations take place in Canada or are trans-border movements: the CN and CP subsidiaries have not been included in this study.

All of the carriers in the Study Group reported fuel costs for each year. UP and BNSF also reported their fuel surcharge revenues for each year. Snavelly King estimated fuel surcharge revenue for CSXT, KCS and NS since they described but did not report fuel surcharge revenue. When estimating the fuel surcharge revenues collected by CSXT, KCS and NS, Snavelly King used a conservative approach; applying the lowest fuel surcharge percentage for the given railroad and time period. Moreover we applied the lowest fuel surcharge percentage to a reduced revenue total, reflecting the fact that fuel surcharges would not apply to all shipments.

As a sensitivity test, SK also estimated the total fuel surcharge revenues collected using the average fuel surcharge for a given period, rather than the minimum. This change would have added another \$1.472 billion of over recovery to the \$6.402 billion shown in our Preliminary Estimate of Over Recovery.

On August 3, 2006 and January 25, 2007, the STB issued decisions in Ex Parte 661 – Rail Fuel Surcharges. Snavelly King sees these decisions as steps in the right direction toward resolving the unreasonable practices leading to over recovery of fuel costs by Class I railroads’ fuel surcharge programs. In its August 3, 2006 decision, the Board stated that it was:

“...addressing what we believe is an unreasonable practice of applying what the railroads label a fuel surcharge in a manner that is not limited to recouping increased fuel costs that are not reflected in the base rate. The measures we are proposing are designed to preclude such an unreasonable practice.”²

In its January 25, 2007 decision the Board stated that:

“...After considering all of the comments received, we conclude that computing rail fuel surcharges as a percentage of a base rate is an unreasonable practice, and we direct carriers to change this practice. We also conclude that the practice of “double dipping,” i.e., applying to the same traffic both a fuel surcharge and a rate increase that is based on a cost index that includes a fuel cost component, such as the Railroad Cost Adjustment Factor (RCAF), is an unreasonable practice, and we direct carriers to change this practice as well. We will proceed with a proposal to impose mandatory reporting requirements for all Class I railroads regarding their fuel surcharges, in STB Ex Parte No. 661 (Sub-No. 1).³

As the STB decision recognized, the fuel surcharge process as applied by the railroads was unreasonable. The Snavelly King report filed in EP 661 estimated over recovery of fuel surcharges in 2005 at more than \$900 million.⁴

² Surface Transportation Board Ex Parte No. 661 Rail Fuel Surcharges, Decided: August 3, 2006

³ Surface Transportation Board Ex Parte No. 661 Rail Fuel Surcharges, Decided: January 25, 2007, page 1

⁴ Tom O’Connor and Kim Hillenbrand submitted a report in STB Ex Parte No. 661 Rail Fuel Surcharges, on behalf of the American Chemistry Council on April 27th, 2006. CSXT and KCS did not include data on fuel surcharge revenue in their 10K and 10Q reports to the SEC; the April 2006 estimate of fuel surcharge over recovery included only NS, BNSF and UP. See Attachment III for the results of the 2005 report.

That preliminary estimate reflected only 3 of the 5 major US Class I railroads. Simply put, the railroad fuel surcharge programs had become profit centers for the railroads.

II. Methodology

The Study Group includes five U.S. Class I railroads:

- The BNSF Railroad (“BNSF”)
- CSXT
- Kansas City Southern (“KCS”)
- Norfolk Southern (“NS”)
- Union Pacific (“UP”)

The Study Period is from 2003 to the First Quarter 2007. In April 2007, many Class I railroads instituted a mileage based fuel surcharge program.

Currently the STB does not require Class I railroads to report prior period revenues collected from their fuel surcharge programs. Accordingly Snavely King relied on railroad filings to the Securities and Exchange Commission (“SEC”) and investor reports as the source of much of the study data.

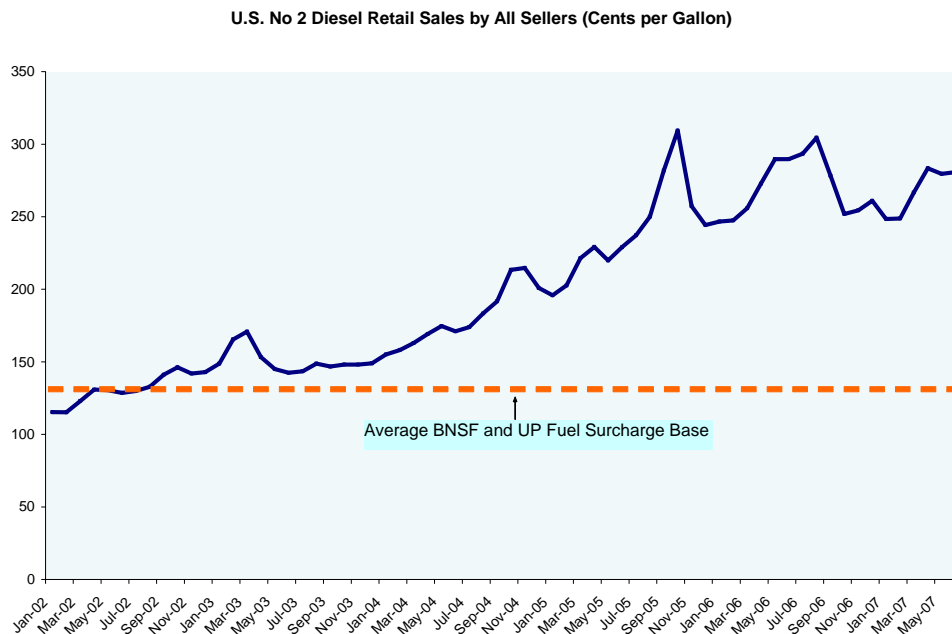
In some cases the Railroads do not disclose how much revenue is generated from their fuel surcharge programs. While following the same basic methodology SK used in its April 2006 report, we have now developed reasonable and conservative analytical and estimating procedures to overcome gaps in the reported data. The conservative assumptions include:

- Applying the lowest fuel surcharge percentage of a given railroad to all of the reported revenue for that year or quarter.
- Reducing the fuel surcharge revenue to recognize rail freight to which the fuel surcharge was not applied

III. Fuel Surcharges and Fuel Costs

Railroads, like most industries, have felt the impact of rising fuel costs. A fuel surcharge program is one method of recovering incremental increases in the fuel costs.

One important aspect of designing an index to reflect short term changes in fuel costs is selection of the base year. A flaw in many of the railroad's fuel surcharge programs is inappropriate selection of the base year for measurement of the fuel surcharge. As seen in the chart below, the price of Highway Diesel Fuel ("HDF") has not been below the base of BNSF's and UP's index since about September 2002. Both BNSF and UP use the EIA HDF index in their fuel surcharge programs. BNSF's base price is \$1.29 a gallon and UP's base price per gallon is \$1.35, though their base prices are different, once HDF price is above \$1.35 both surcharges are virtually identical.



CSXT, KCS and NS all use West Texas Intermediate⁵ ("WTI") as the index for their revenue based fuel surcharge programs. As seen in the chart below, WTI has not been below \$23 since March of 2002. CSXT⁶, KCS⁷, and NS⁸ currently use \$23 per barrel as the WTI price base for revenue based fuel surcharges.

NS also published a fuel surcharge with a base price of \$64 per barrel. The adoption of a \$64 barrel price of WTI could preempt downward adjustment of fuel surcharge rate

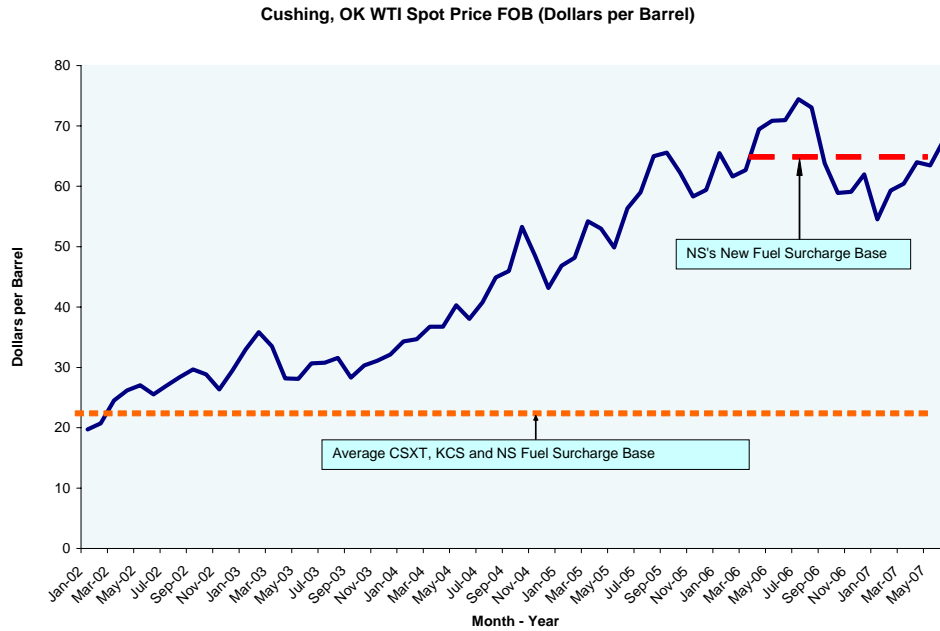
⁵ There are some issues with the use of West Texas Intermediate as an index that reflects the cost of diesel fuel. According to the EIA, only about 25% of the 42-U.S. gallon barrel of crude oil is used to make diesel and heating oil. (source: <http://www.eia.doe.gov/neic/brochure/gas06/gasoline.htm>)

⁶ See www.csx.com

⁷ See www.kcsi.com

⁸ See www.nscorp.com

increases and it highlights the importance of selection of the base year. After NS published the fuel surcharge with a base price of \$64 per barrel the WTI price per barrel fell below the \$64 level, as shown in the following Chart. When the fuel price stays at a point below \$64, or declines further, logic calls for a downward rate adjustment and a possible fuel cost refund; in effect a “negative surcharge”.



It is essential that an effective index accurately captures short term changes in fuel prices. Though rates are not cost based, the railroad has the ability over the long term to change rates in order to reflect changes in its operating costs. Fuel as a percentage of operating cost has increased over the last five years, and railroads have considered those cost increases in proposing rates. Over time the fuel cost increases tend to be reflected in the base rate.

Accordingly, often fuel cost increases experienced in earlier time periods have been made a part of the base rate. When fuel costs decline, the railroads could continue collecting a fuel surcharge compensating for incremental fuel cost they no longer incur. This is clearly an unreasonable practice

IV. Railroad Industry Fuel Costs and Fuel Surcharges

The U.S. Class I railroads saw dramatic increases in their fuel costs during the study period. During this period these railroads used their fuel surcharge programs aggressively, transforming cost recovery mechanisms into profit centers. The preliminary estimates shown in Table I indicate that during the 2003 to 2007 Q1 period five major US railroads over recovered their fuel costs by more than \$6 billion dollars. These 2003-2007 results are consistent with our initial estimate of the over recovery for 2005 presented in our April 2006 Report⁹.

Our April 2006 estimate of the 2005 Over Recovery totaled \$902 million. This reflected only three of the five major US Class I railroads: BNSF, NS, and UP. Snavely King has now expanded this coverage to include CSX and KCS. We have also refined the estimates for NS and UP. Based on further analysis and review of additional data, we have increased our initial 2005 over recovery estimate for NS and reduced our initial 2005 over recovery estimate for UP.

Between 2003 and 2006 the U.S. Class I Railroads saw fuel cost increase dramatically. As shown in the table below, the fuel costs in 2003 for the Class I Railroads were \$3.442 billion compared to \$7.976 billion in 2006.

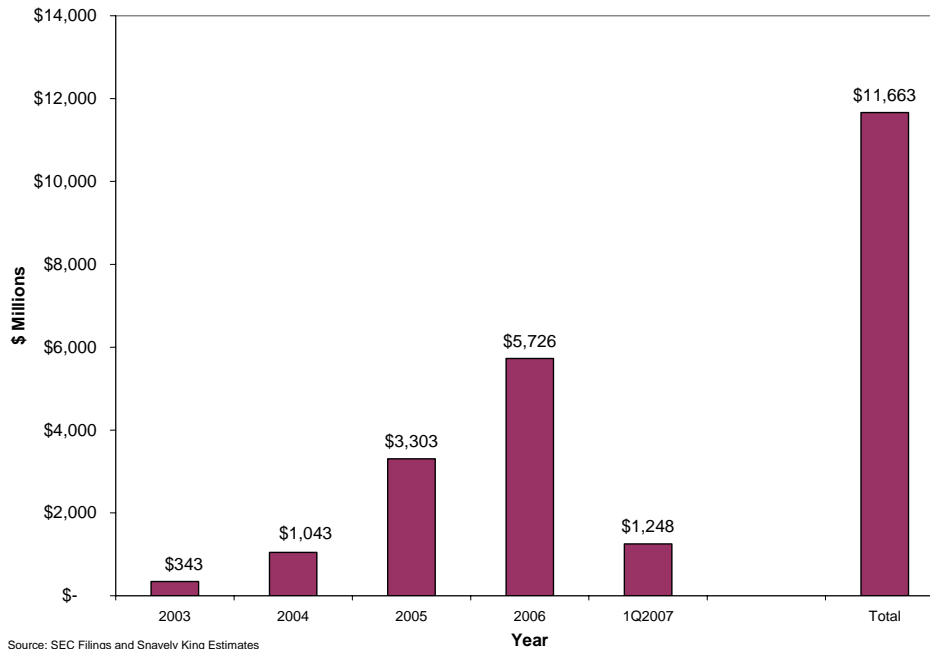
U.S. Class I Railroad Fuel Costs (\$ Millions)

Year	Fuel Cost	Year over Year Change
2002	\$ 2,793	
2003	\$ 3,442	\$ 649
2004	\$ 4,322	\$ 880
2005	\$ 6,155	\$ 1,832
2006	\$ 7,976	\$ 1,821
1Q2007	\$ 1,847	\$ 78
Total	\$ 23,742	\$ 5,260

Through their fuel surcharge programs the U.S Class I railroads generated a vast amount of fuel surcharge revenues to offset the increase in fuel costs. For the Study Period, SK estimates that the railroads collected \$11.663 billion in fuel surcharge revenue

⁹ See Attachment III

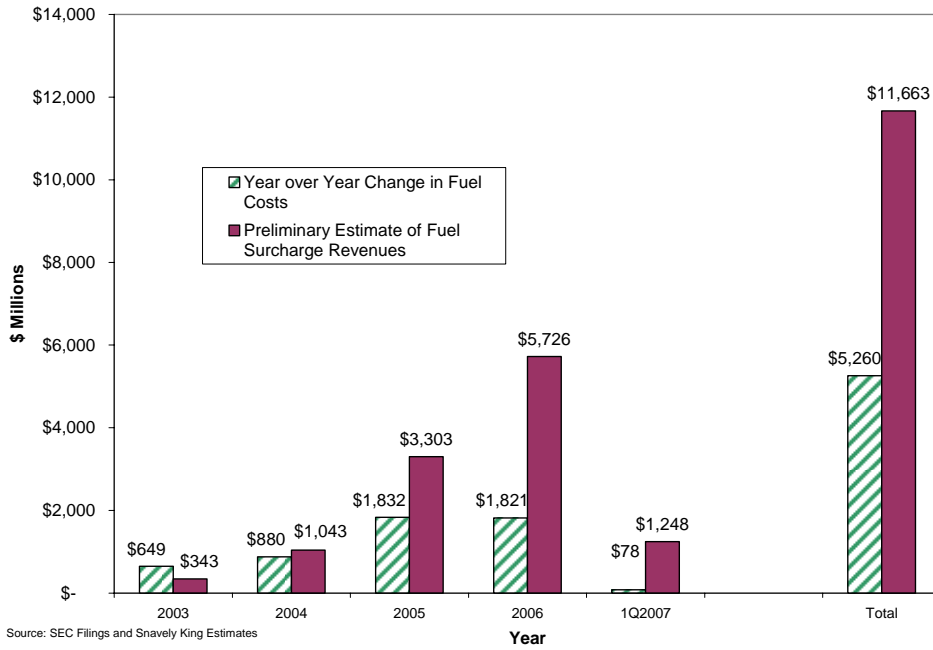
Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)



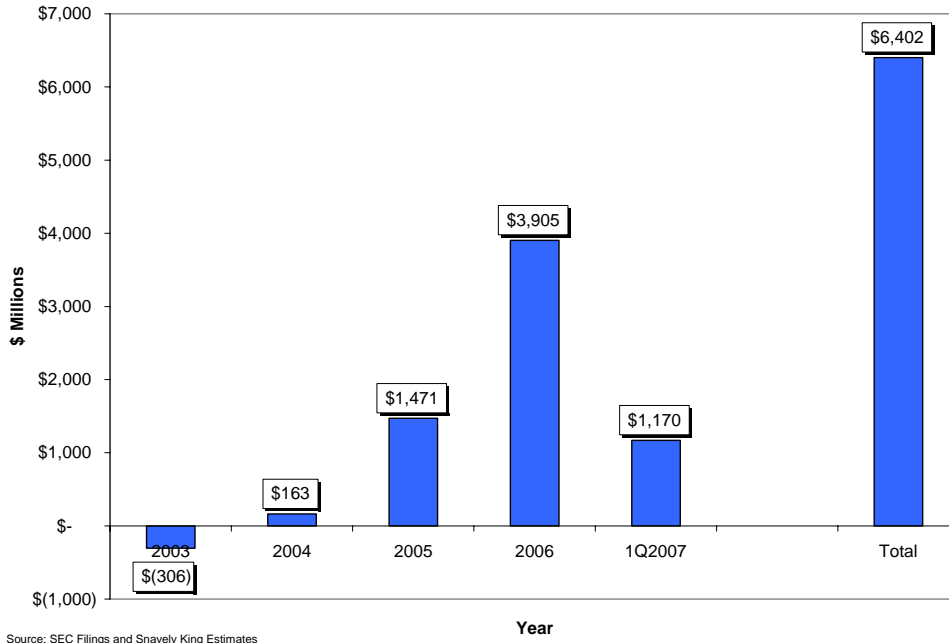
When comparing the fuel surcharge revenues collected by the Class I railroads and total year over year change in fuel costs during the study period, it is clear that the railroads have over recovered their fuel costs and the fuel surcharge mechanism has turned into a profit center. Snavely King estimates that the U.S Class I railroads over recovered their fuel costs by \$6.402 billion.

While the graph below indicates that many of the fuel surcharge programs may have initially fallen short of recovering the incremental increase in fuel costs, over time these cost recovery mechanisms became profit centers for the railroads.

Year over Year Change in Fuel Cost and Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)



Preliminary Estimate of Over Recovery



V. Individual Railroad Analyses

In this section SK analyzes the fuel costs and the fuel surcharge revenues collected by each individual Class I railroad during the Study Period 2003 to the First Quarter 2007. Individual analysis has been carried out for the following U.S Class I railroads:

- BNSF Railroad (“BNSF”)
- CSXT
- Kansas City Southern (“KCS”)
- Norfolk Southern (“NS”)
- Union Pacific (“UP”)

Throughout the analysis we focus on carload fuel surcharges applied by five major US Class I railroads. Other railroads also imposed similar fuel surcharges as a percentage of the through rate. Moreover, the railroads also imposed intermodal fuel surcharges as a percentage of the through rate. Intermodal fuel surcharges were generally higher than carload fuel surcharges. Accordingly the over recovery estimate included in this report likely understates the full impact of rail fuel surcharges.

BNSF

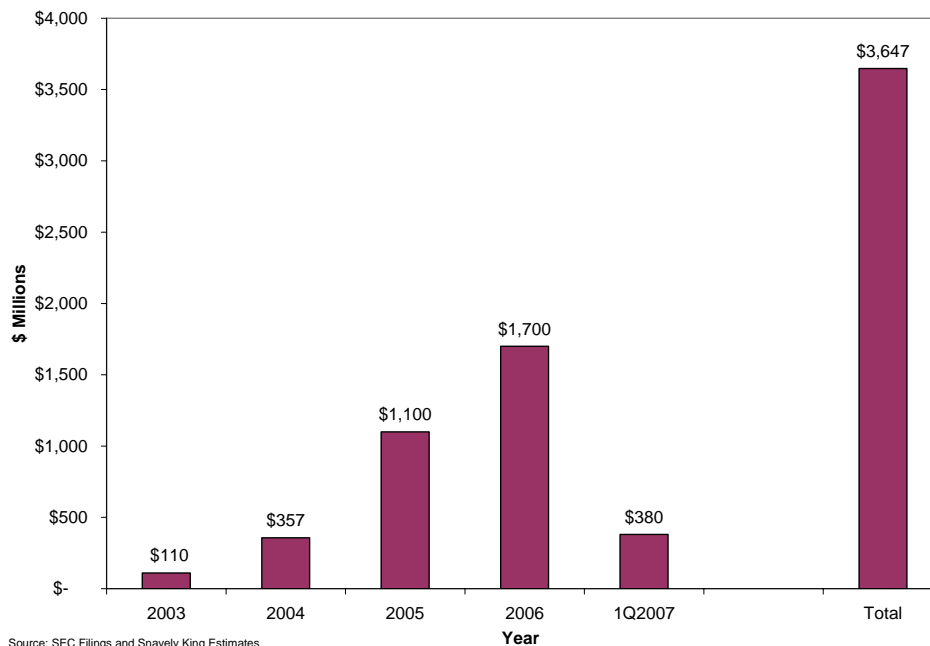
During the Study Period, BNSF experienced increases in its fuel costs. From 2003 to 2006, BNSF's fuel costs rose from \$1.093 billion to \$2.734 billion. As shown in the table below, while BNSF incurred an increase in operating expenses due to rising fuel costs, its operating ratio improved by 5 points to 77% in 2006.

Table – BNSF_I¹⁰
2003 – 2007 Fuel Costs and Operating Ratio (\$ Millions)

Year	Fuel Cost	Incremental Fuel Cost	Annual Operating Ratio
2003	\$1,093	\$260	82%
2004	\$1,335	\$242	85%
2005	\$1,959	\$624	78%
2006	\$2,734	\$775	77%
1Q2007	\$652	\$91	

To offset rising fuel costs, BNSF established a fuel surcharge program that was applied as a percentage of the through rate. BNSF's fuel surcharge program was based on the average monthly price of No. 2 On – Highway Diesel Fuel (“HDF”) published by the Department of Energy's Energy Information Agency (EIA). Based on review of BNSF's SEC filings and investor reports, Snavely King estimates that during the study period, BNSF collected \$3.647 billion in surcharge revenue.

BNSF_II
Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)



¹⁰ BNSF SEC Filings

Chart BNSF_III
Year over Year Change in Fuel Cost and Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)

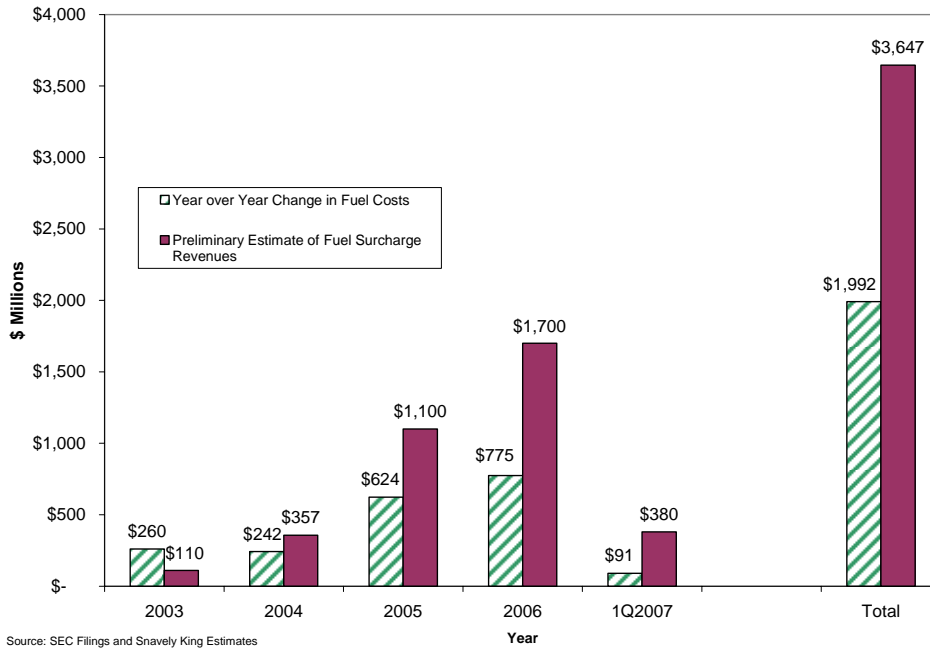
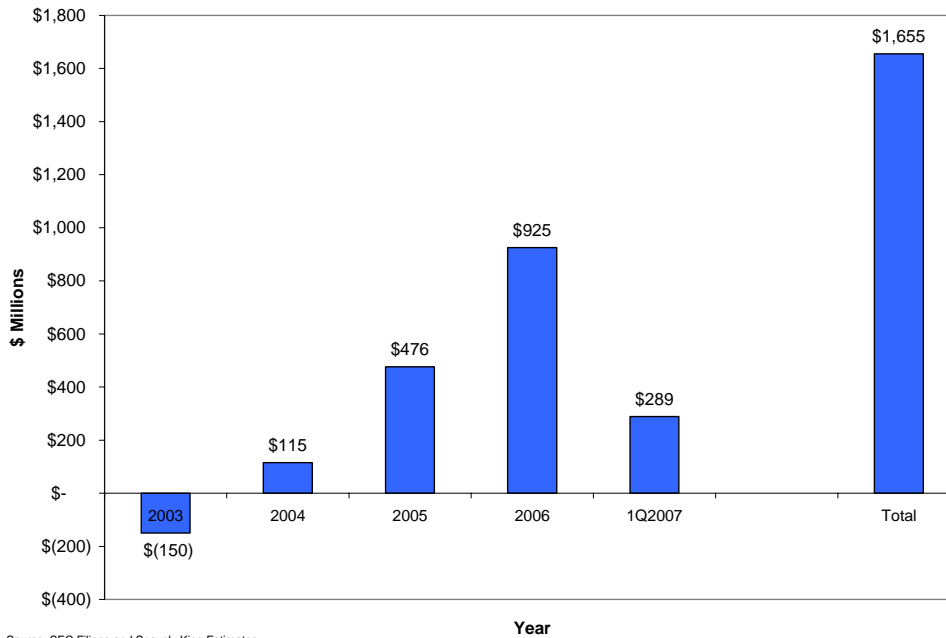


Chart BNSF_III compares the year over year change in fuel costs to fuel surcharge revenues collected by the BNSF. Between 2003 and the first quarter of 2007, BNSF incurred year over year changes in fuel cost totaling \$1.992 billion. Through the fuel surcharge mechanism, BNSF recovered \$3.647 billion in fuel surcharge revenues. We estimate that, in 2003, BNSF’s fuel costs were greater than the fuel surcharge revenues it recovered. Overall, during the 2003 to 2007 Q1 period our preliminary estimate is that, including the shortfall in 2003, BNSF over-recovered \$1.655 billion.

Chart BNSF_IV
Preliminary Estimate of Fuel Surcharge Revenue Over recovery (\$ Millions)



CSXT

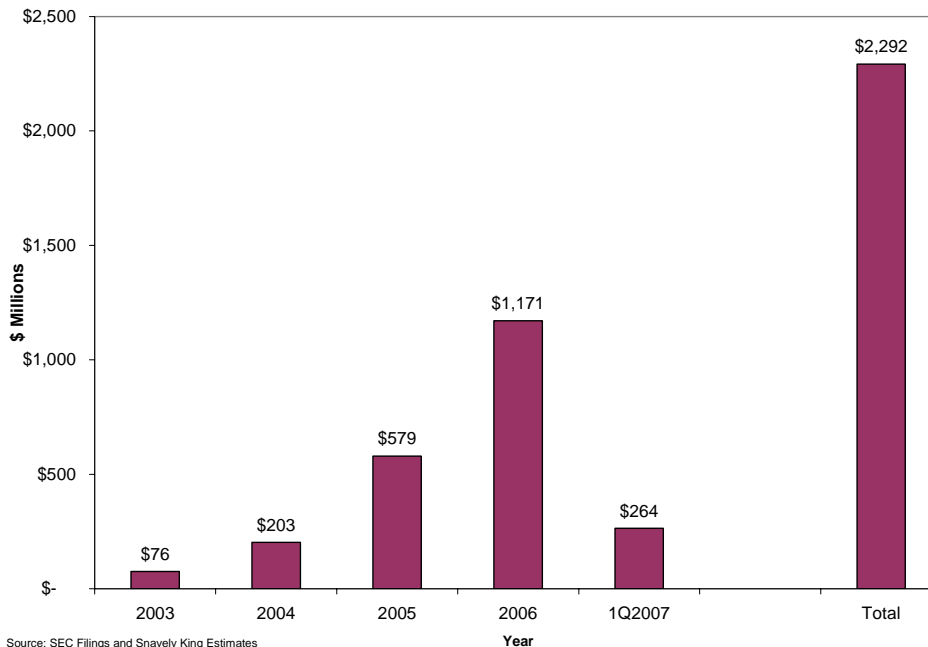
CSXT like other Class I Railroads saw a dramatic rise in the cost of diesel fuel during the study period. As shown in Table CSXT_I below, during the Study period, CSXT's fuel cost rose from \$0.581 billion in 2003 to \$1.112 billion in 2006. While CSXT's diesel fuel cost rose, their Annual Operating Ratio (Operating Expenses / Operating Revenues) improved by more than 10 points from 93% in 2003 to 78% in 2006.

Table – CSXT_I¹¹
2003 – 2007 Fuel Costs and Operating Ratio (\$ Millions)

Year	Fuel Cost	Incremental Fuel Cost	Annual Operating Ratio
2003	\$581	\$66	93%
2004	\$711	\$130	88%
2005	\$783	\$72	82%
2006	\$1112	\$329	78%
1Q2007	\$259	\$6	

During the study period CSXT used a fuel surcharge that was applied as a percentage of the through rate. CSXT's fuel surcharge was based on the average monthly price of West Texas Intermediate two months earlier. In Chart CSXT_II below, Snavely King estimated the amount of fuel surcharges collected by CSXT during the study period. SK estimates that from 2003 to the First Quarter in 2007, CSXT collected \$ 2.292 billion in fuel surcharge revenue.

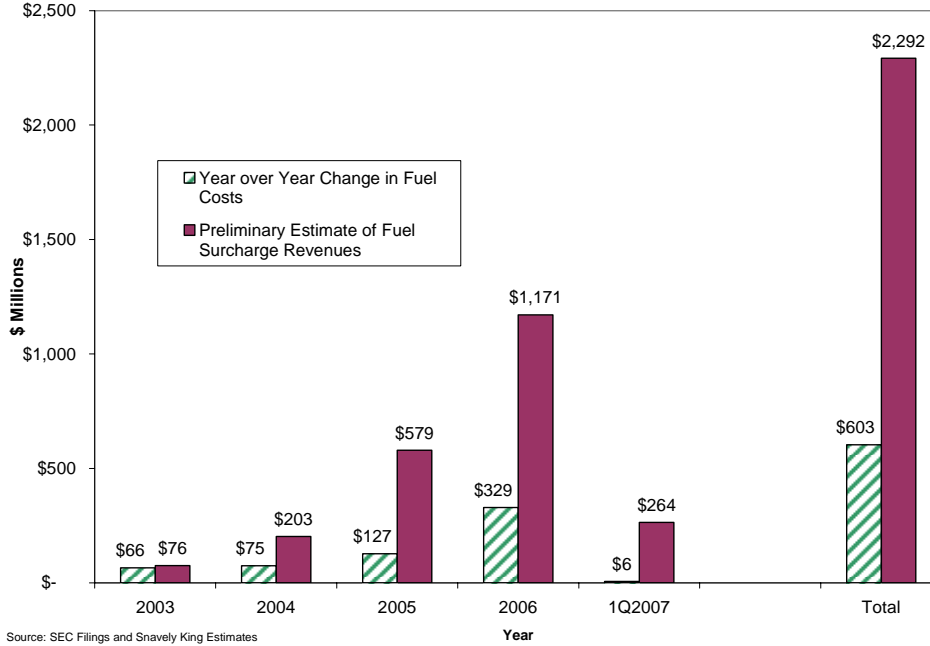
Chart CSXT_II
Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)



¹¹ Source: CSXT SEC Filings

Chart CSXT_III below compares the year over year change in fuel cost, to fuel surcharge revenues collected by CSXT. CSXT experienced a \$0.603 billion increase in year over year cost of diesel fuel from 2003 to Q1 2007. During that period, CSXT collected an estimated \$2.292 billion in fuel revenues¹². The over recovery is defined as the difference between the incremental fuel costs, year over year, and the fuel surcharge revenue collected during that year or quarter.

Chart CSXT_III
Year over Year Change in Fuel Cost and Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)

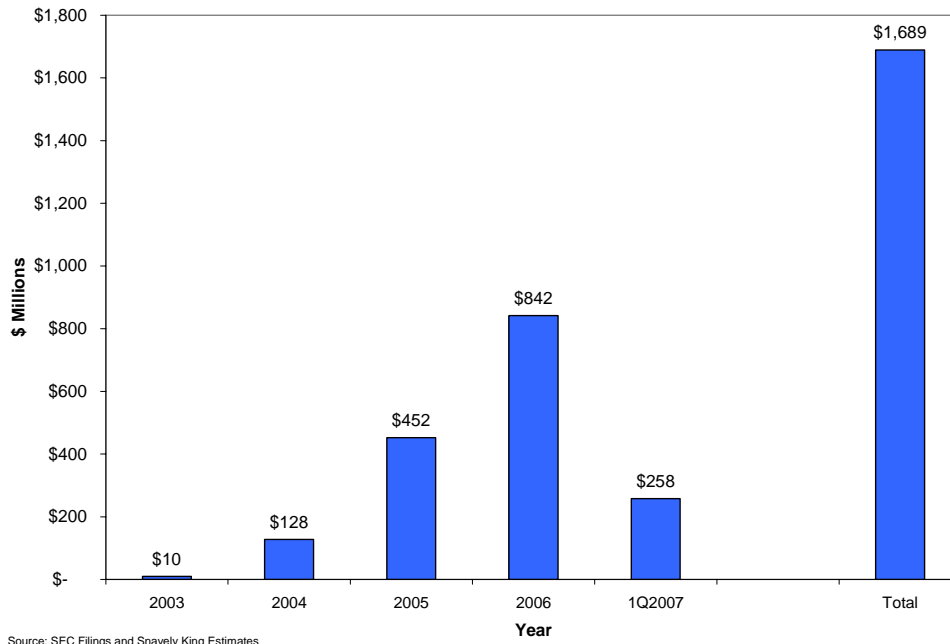


The preliminary estimate of the total over recovery realized by CSXT during the study period is \$1.689 billion, as shown in chart CSXT_IV

As noted above, over recovery is defined as an excess of Fuel Surcharge revenue collected during that year or quarter over and above the incremental fuel costs, year over year during that same year or quarter. The over recovery is cumulated over a multi year time period.

¹² Snavely King conservatively estimated the fuel surcharges revenues collected by CSXT. If we had estimated the fuel surcharge revenues collected by CSXT using the average fuel surcharge for a given period, rather than the minimum monthly fuel surcharge percent, the total fuel surcharge revenues collected and the over recovery would increase by about \$735 million

Chart CSXT_IV
Preliminary Estimate of Fuel Surcharge Revenue Over recovery (\$ Millions)



Kansas City Southern

The Kansas City Southern (“KCS”) also saw a dramatic rise in the cost of diesel fuel during the study period. As shown in Table KCS_I below, during the Study period, KCS’s fuel cost rose from \$47 million in 2003 to \$141 million in 2006.

Table – KCS_I¹³
2003 – 2007 Fuel Costs and Operating Ratio (\$ Millions)

Year	Fuel Cost	Incremental Fuel Cost
2003	\$47	\$9
2004	\$66	\$19
2005	\$124	\$57
2006	\$141	\$17
1Q2007	\$34	\$2

During the study period KCS used a fuel surcharge that was applied as a percentage of the through rate. KCS’s fuel surcharge was based on the average monthly price of West Texas Intermediate. In Chart KCS_II below, Snavelly King estimated the amount of fuel surcharges collected by KCS during the study period. SK estimates that from 2003 to the First Quarter in 2007, KCS collected \$ 197 million.

KCS_II
Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)

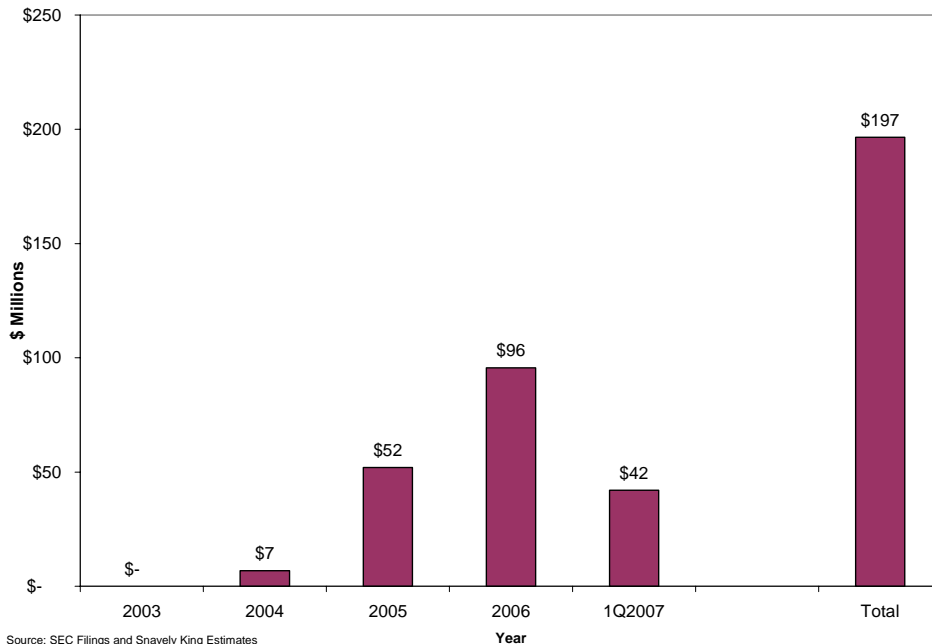


Chart KCS_III below compares the year over year change in fuel costs, to fuel surcharge revenues collected by KCS. KCS experienced a \$104 million increase in fuel costs year over year during the 2003 - 2007 Q1 Study Period and KCS collected an estimated \$197

¹³ Source: Kansas City Southern Securities and Exchange Commission (“SEC”) Filings

million in fuel revenues¹⁴. The over recovery is defined as the difference between the incremental fuel costs, year over year, and the fuel surcharge revenue collected during that year or quarter. The preliminary estimate of the total over recovery realized by KCS during the study period is \$92 million, as shown in Chart KCS_IV

Chart KCS_III
Year over Year Change in Fuel Cost and Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)

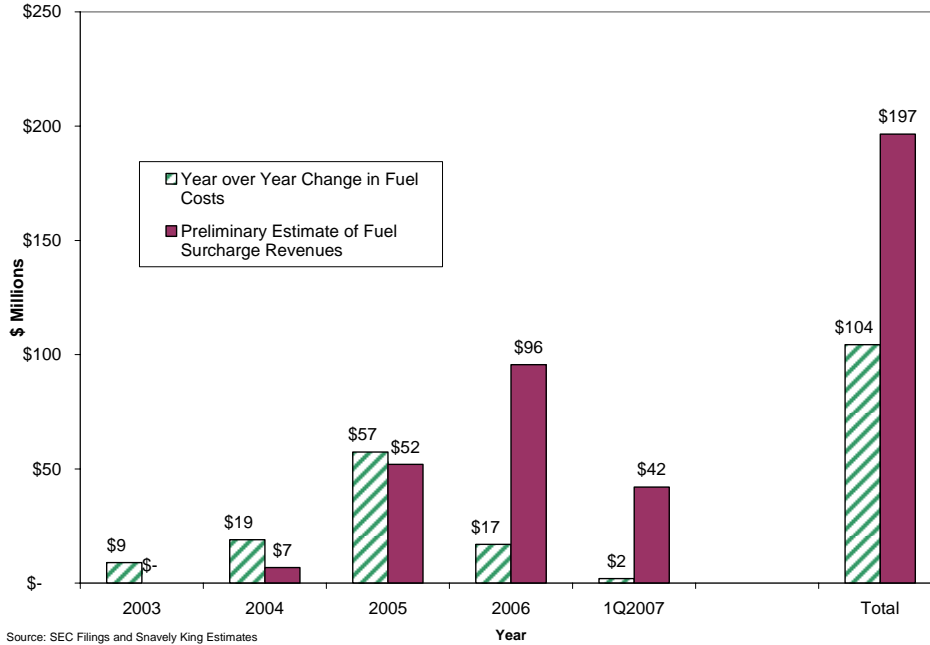
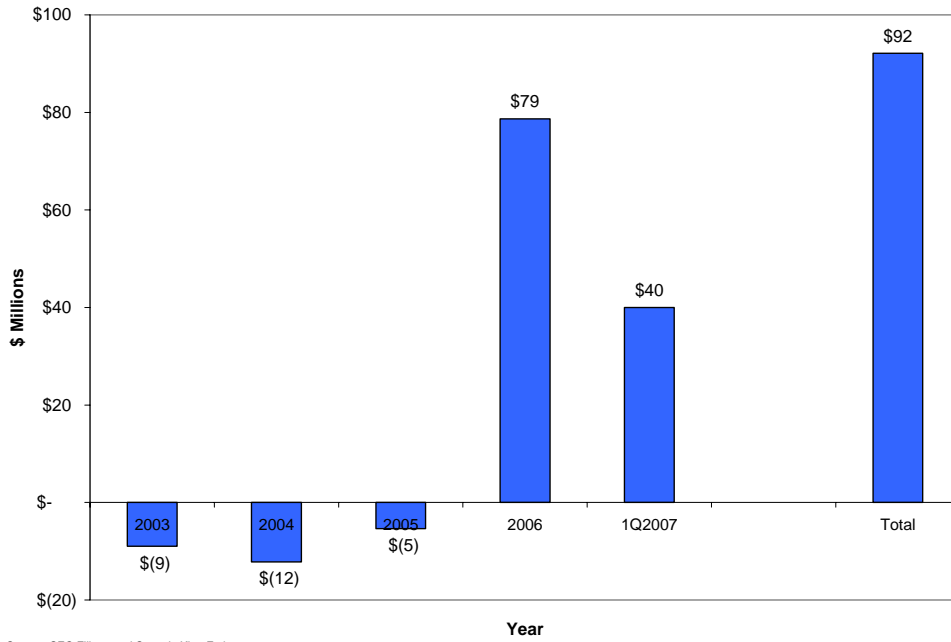


Chart KCS_IV below shows the over recovery of fuel surcharges during the base period. SK estimates that KCS over-recovered \$92 million during the study period. It should be noted that this total includes the 2003 to 2005 period, when Snavelly King preliminarily estimates that KCS did not recover enough fuel surcharge revenue to cover the year to year increase in fuel costs.

¹⁴ Snavelly King conservatively estimated the fuel surcharges revenues collected by KCS. If Snavelly King had estimated the fuel surcharge revenues collected by KCS using its average fuel surcharge for a given period rather than the minimum monthly fuel surcharge percent, the total fuel surcharge revenues collected, and the resultant over recovery would increase by about \$37 million

Chart KCS_IV
Preliminary Estimate of Fuel Surcharge Revenue Over-recovery (\$ Millions)



Norfolk Southern Railroad

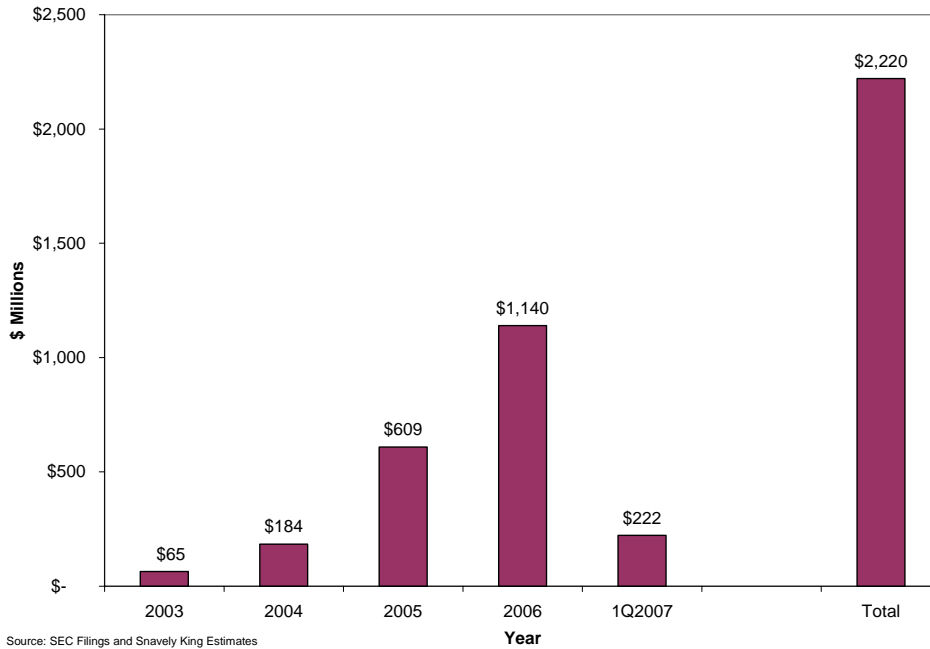
The Norfolk Southern (“NS”) also saw a dramatic rise in the cost of diesel fuel during the study period. As shown in Table NS_I below, during the Study period, NS’s fuel cost rose from \$0.380 billion in 2003 to \$0.977 billion in 2006. While Norfolk Southern’s diesel fuel cost rose, their Annual Operating Ratio (Operating Expenses / Operating Revenues) improved by more than 10 points from 83.5% in 2003 to 72.8% in 2006.

Table – NS_I¹⁵
 2003 – 2007 Fuel Costs and Operating Ratio (\$ Millions)

Year	Fuel Cost	Incremental Fuel Cost	Annual Operating Ratio
2003	\$380	\$38	83.5%
2004	\$449	\$69	76.7%
2005	\$727	\$278	75.2%
2006	\$977	\$250	72.8%
1Q2007	\$219	\$(12)	

During the study period the NS used a fuel surcharge that was applied as a percentage of the through rate. NS’s fuel surcharge was based on the average monthly price of West Texas Intermediate. In Chart NS_II below, Snavely King estimated the amount of fuel surcharge revenue collected by the NS during the study period. SK estimates that from 2003 to the First Quarter in 2007, NS collected \$ 2.220 billion.

Chart NS_II
 Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)



¹⁵ Norfolk Southern SEC Filings

Chart NS_III below compares the year over year change in fuel costs, to fuel surcharge revenues collected by the Norfolk Southern. NS experienced a \$0.623 billion increase in year over year cost of diesel fuel from 2003 to Q1 2007. During that period, NS collected an estimated \$2.220 billion in fuel revenues¹⁶. The over recovery is defined as the difference between the incremental fuel costs, year over year, and the fuel surcharge revenue collected during that year. The estimated total over recovery realized by NS during the study period is \$1.597 billion.

Chart NS_III
 Year over Year Change in Fuel Cost and Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)

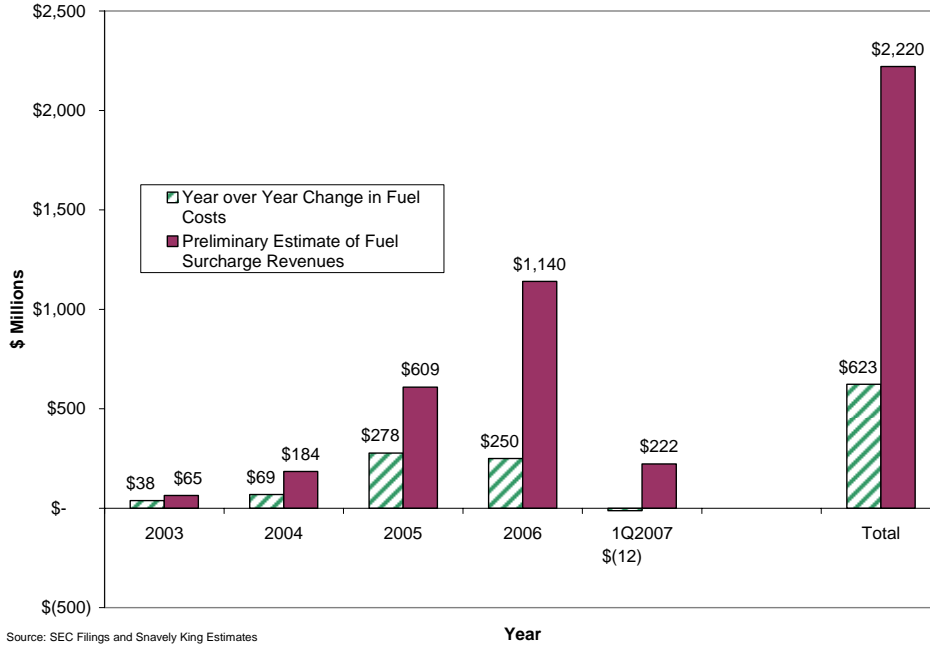
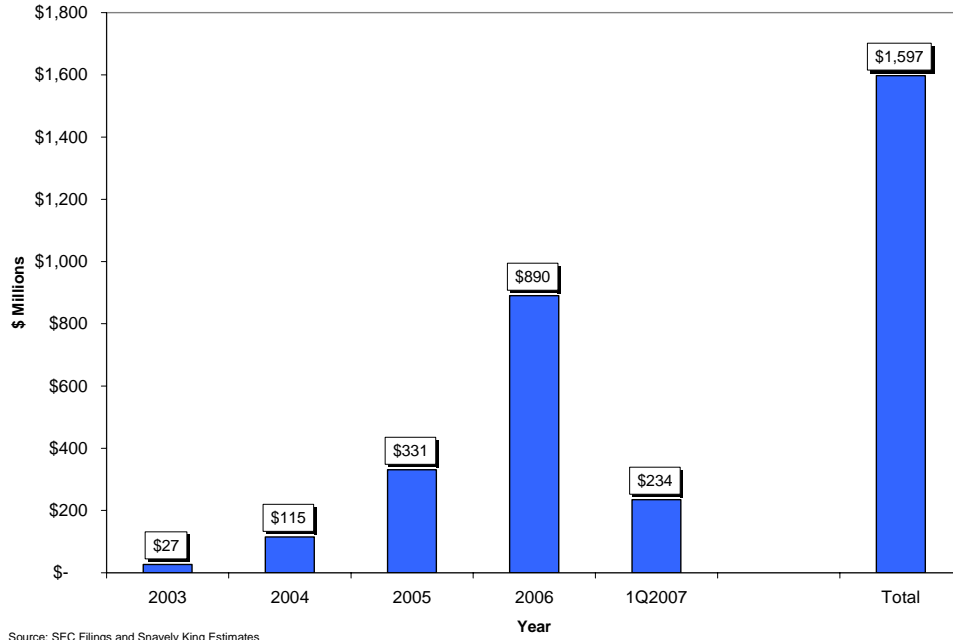


Chart NS_IV below shows the over recovery of fuel surcharges during the base period.

¹⁶ Snavely King conservatively estimated the fuel surcharges revenues collected by NS. If Snavely King had estimated the fuel surcharge revenues collected by NS using its average fuel surcharge for a given period rather than the minimum monthly fuel surcharge percent, the total fuel surcharge revenues collected, and the resultant over recovery would increase by about \$700 million

Chart NS_IV
Preliminary Estimate of Fuel Surcharge Revenue Over recovery (\$ Millions)



Union Pacific

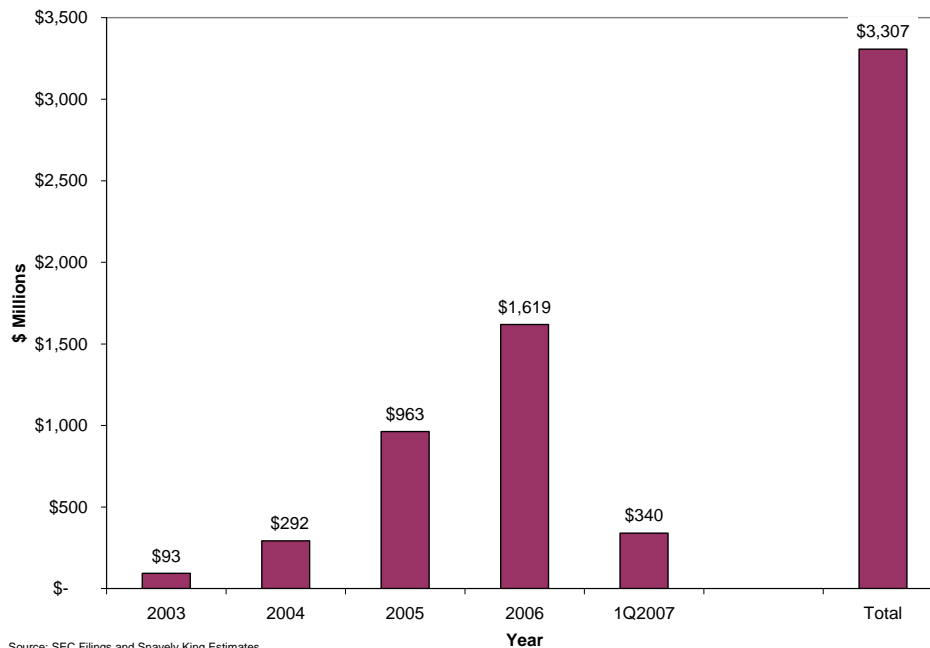
The Union Pacific Railroad (“UP”) saw its fuel and utilities costs double during the Study Period from 2003 to first quarter 2007. Between 2003 and 2006 UP’s fuel and utilities cost increased from \$1.341 billion to \$3.012 million. During this time UP’s operating ratio weakened from 2003 to 2004 and then improved in each year from 2004 through 2006. The UP operating ratio in 2006 improved relative to the 2003 level.

Table – UP_I¹⁷
2003 – 2007 Fuel Costs and Operating Ratio (\$ Millions)

Year	Fuel Cost	Incremental Fuel Cost	Annual Operating Ratio
2003	\$1,341	\$276	82%
2004	\$1,816	\$475	89%
2005	\$2,562	\$746	87%
2006	\$3,012	\$450	81%
1Q2007	\$683	\$(9)	

UP used a fuel surcharge program that applied the surcharge percentage to the through rate to offset changing fuel costs. Beginning in June 2003, UP’s fuel surcharge program was based on the average monthly price of No. 2 On – Highway Diesel Fuel (“HDF”) published by the Department of Energy’s Energy Information Agency. Based on reviewing UP’s SEC filings and investor reports, Snavelly King estimates that during the study period, UP collected \$3.307 billion in fuel surcharge revenues.

Chart UP_II
Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)



¹⁷ UP Securities and Exchange Commission (“SEC”) Filings

Chart UP_III below compares the year over year change in fuel costs, to fuel surcharge revenues collected by the UP. During the Study period, the total year over year change in UP’s fuel and utilities costs was \$1.938 billion. Through its fuel surcharge mechanism, UP recovered \$3.307 billion in fuel surcharge revenues. Our preliminary estimate of the UP over-recovery is \$1.369 billion, defined as fuel surcharge revenues less year over year change in fuel costs. This includes an estimated under recovery in 2003 and 2004.

Chart UP_III

Year over Year Change in Fuel Cost and Preliminary Estimate of Fuel Surcharge Revenue (\$ Millions)

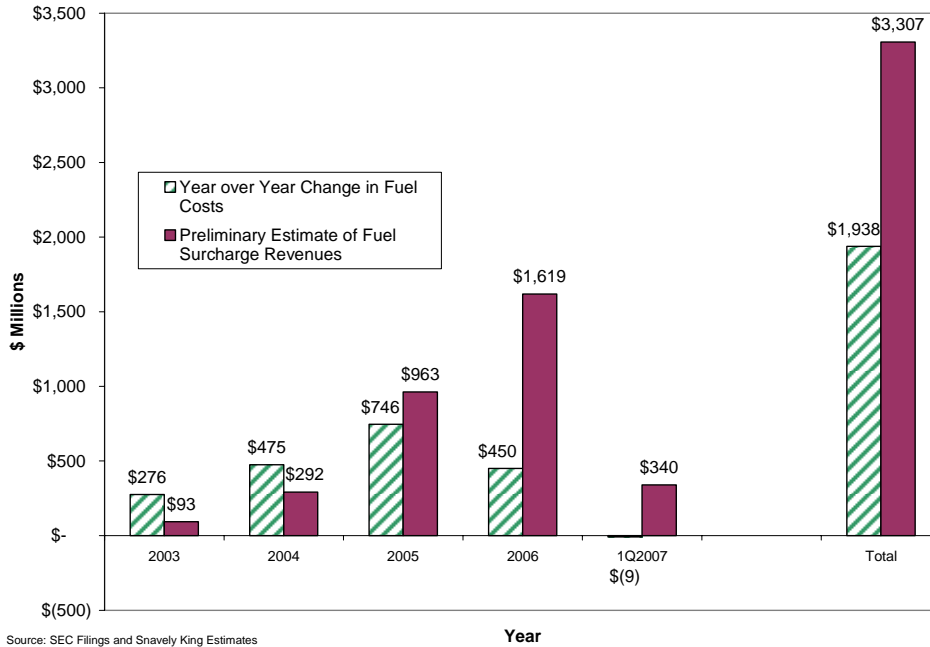
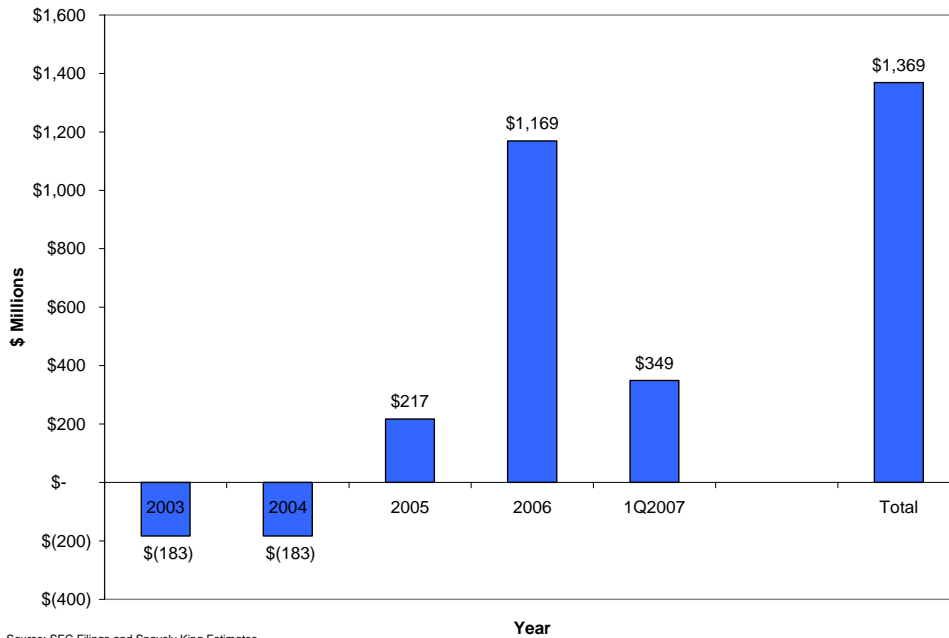


Chart UP_IV

Preliminary Estimate of Fuel Surcharge Revenue Over recovery (\$ Millions)



VI. Conclusions

While based on preliminary estimates the findings are clear:

- During the 2003 to 2007 Q1 study period, the five study railroads (BNSF, CSXT, KCS, NS, and UP) have over-recovered more than \$6 billion in fuel surcharge revenue, over and above their incremental fuel costs
- Other US railroads and Canadian railroads operating in the US may have over-recovered additional fuel surcharge revenue over and above their incremental fuel costs
- The newly installed mileage based fuel surcharges should be monitored carefully to prevent a recurrence of over recovery such as shown in this analysis



BACKGROUND

Snavely King Majoros O'Connor & Lee, Inc. ("Snavely King") was founded in 1970 to conduct research on a consulting basis into the rates, revenues, costs and economic performance of regulated firms in the transportation and public utility industries. The firm has since expanded the scope of its activities to address the problems of unregulated firms and entities in these and other industries.

For more than three decades SK has built its success on developing and applying practical market and economic solutions.

The firm's financial and strategic advice is backed by the professional staff's wide experience in designing and applying business solutions, evaluating corporate transactions, analyzing start-up companies, and in providing strategic planning services to commercial, institutional and government clients.

Snavely King has provided consulting services to shippers, railroads, transportation companies, government agencies and hundreds of other clients in transportation, telecommunications and utilities in the US, Canada and Overseas.

In more than 2,000 projects, the analyses and expert advice provided by Snavely King have significantly assisted both private and public sector clients.

ATTACHMENT II
Estimate of Railroad Fuel Surcharge Overcharges (\$ Millions)

	BNSF ^{1/}	CSXT ^{2/}	KCS ^{3/}	NS ^{4/}	UP ^{5/}	West ^{6/}	East ^{7/}	Total
<u>Preliminary - 1Q2007</u>								
1Q 2007 Fuel Costs	\$652	\$259	\$34	\$219	\$683	\$1,335	\$512	\$1,847
1Q 2006 Fuel Costs	\$561	\$253	\$32	\$231	\$692	\$1,253	\$516	\$1,769
Quarter over Quarter Change in Fuel Costs	\$91	\$6	\$2	\$(12)	\$(9)	\$82	\$(4)	\$78
1Q07 Estimated Revenue from Fuel Surcharges	\$380	\$264	\$42	\$222	\$340	\$720	\$528	\$1,248
Estimated Over Recovery	\$289	\$258	\$40	\$234	\$349	\$638	\$532	\$1,170
<u>2006</u>								
2006 Fuel Costs	\$2,734	\$1,112	\$141	\$977	\$3,012	\$5,746	\$2,230	\$7,976
2005 Fuel Costs	\$1,959	\$783	\$124	\$727	\$2,562	\$4,521	\$1,634	\$6,155
Year over Year Change in Fuel Costs	\$775	\$329	\$17	\$250	\$450	\$1,225	\$596	\$1,821
2006 Estimated Revenue from Fuel Surcharges	\$1,700	\$1,171	\$96	\$1,140	\$1,619	\$3,319	\$2,407	\$5,726
Estimated Over Recovery	\$925	\$842	\$79	\$890	\$1,169	\$2,094	\$1,811	\$3,905
<u>2005</u>								
2005 Fuel Costs	\$1,959	\$783	\$124	\$727	\$2,562	\$4,521	\$1,634	\$6,155
2004 Fuel Costs	\$1,335	\$656	\$66	\$449	\$1,816	\$3,151	\$1,171	\$4,322
Year over Year Change in Fuel Costs	\$624	\$127	\$57	\$278	\$746	\$1,370	\$462	\$1,832
2005 Estimated Revenue from Fuel Surcharges	\$1,100	\$579	\$52	\$609	\$963	\$2,063	\$1,240	\$3,303
Estimated Over Recovery	\$476	\$452	\$(5)	\$331	\$217	\$693	\$778	\$1,471
<u>2004</u>								
2004 Fuel Costs	\$1,335	\$656	\$66	\$449	\$1,816	\$3,151	\$1,171	\$4,322
2003 Fuel Costs	\$1,093	\$581	\$47	\$380	\$1,341	\$2,434	\$1,008	\$3,442
Year over Year Change in Fuel Costs	\$242	\$75	\$19	\$69	\$475	\$717	\$163	\$880
2004 Estimated Revenue from Fuel Surcharges	\$357	\$203	\$7	\$184	\$292	\$649	\$394	\$1,043
Estimated Over Recovery	\$115	\$128	\$(12)	\$115	\$(183)	\$(68)	\$231	\$163
<u>2003</u>								
2003 Fuel Costs	\$1,093	\$581	\$47	\$380	\$1,341	\$2,434	\$1,008	\$3,442
2002 Fuel Costs	\$833	\$515	\$38	\$342	\$1,065	\$1,898	\$895	\$2,793
Year over Year Change in Fuel Costs	\$260	\$66	\$9	\$38	\$276	\$536	\$113	\$649
2004 Estimated Revenue from Fuel Surcharges	\$110	\$76	\$65	\$93	\$203	\$140	\$140	\$343
Estimated Over Recovery	\$(150)	\$10	\$(9)	\$27	\$(183)	\$(333)	\$27	\$(306)
Preliminary Total for all Years	\$1,655	\$1,689	\$92	\$1,597	\$1,369	\$3,024	\$3,378	\$6,402

ATTACHMENT II (continued)

Notes:

1/ BNSF reports Fuel Surcharge Revenues in their filings

2/ CSXT Fuel Surcharges Revenues are SK estimates. These estimates take into account the amount of revenue covered by fuel surcharge provisions and applied the lowest fuel surcharge used by CSXT during the year. CSXT's states in their 2006 10-K that "Approximately 85% of CSX's revenue was subject to fuel surcharges or cost escalation clauses which include a fuel element"(Page 20). For the First Quarter 2007, 85% was used for the amount of revenue covered by fuel surcharge provisions. In 2005, 2004, and 2003 estimates of 80%, 70% and 50% were used respectively.

3/ KCS Fuel Surcharge Revenues and fuel costs reflect cost and revenue data reported to the SEC and estimates of fuel surcharge revenue based on application of the lowest KCS fuel surcharge percent in a given year to a portion of the reported revenue for that year (2003-0%; 2004- 64%; 2005 - 64.7%; 2006 - 75%; 2007 - 80%)

4/Norfolk Southern's Fuel Surcharges Revenue are SK estimates. These estimates take into account the amount of revenue covered by fuel surcharge provisions and applied the lowest fuel surcharge used by NS during the year. NS states in the 2006 10-K that "fuel surcharge provisions covered approximately 91% of total revenues compared with about 85% at the end of 2005"(Page K21). For the First Quarter 2007, 91% was used for the amount of revenue covered by fuels surcharge provisions. In 2004 and 2003 estimates of 70% and 50% were used. SK estimates take into account NS modified Fuel Surcharge Program that went into effect in July 2006. NS estimates this program covered 15% of NS's revenues. SK has not included any fuel surcharges from the modified NS program.

5/The Union Pacific reports Fuel Surcharge Revenues in their filings. SK used UP's fuel and utilities for fuel costs.

6/West= BNSF+UP

7/East= CSXT+NS+KCS

Attachment III

Results of Snavely King's April 26 Report

<u>Fuel Surcharge Analysis</u>								
<u>Line</u>		<u>BNSF</u>	<u>CSXT 1/</u>	<u>KCS 2/</u>	<u>NS</u>	<u>UP</u>	<u>Total</u>	<u>Source</u>
1	2005 Fuel Costs	\$ 1,959	\$ 783	\$ 124	\$ 727	\$ 2,393	\$ 5,986	
2	2004 Fuel Costs	\$ 1,335	\$ 656	\$ 66	\$ 449	\$ 1,684	\$ 4,190	
3	2005 Increase in Fuel Costs, \$ amount needed to be recovered	\$ 624	\$ 127	\$ 57	\$ 278	\$ 709	\$ 1,795	Ln.1 - Ln.2
4	2005 Estimated Revenue from fuel surcharge	\$ 1,100			\$ 396	\$ 1,017	\$ 2,513	
5	2005 Over Recovery	\$ 476	\$ -	\$ -	\$ 118	\$ 308	\$ 902	Ln.3 - Ln.4
Note:	Note: Fuel hedging benefits have not been factored in the analysis		1/CSXT estimated fuel surcharge revenue is for Q3 2005 only			2/ KCS estimated fuel surcharge revenue is currently unavailable		