



## **Rail-dependent Shipper Case Studies**

### ***Railroads' Monopoly Pricing Raises Electricity Rates in Nebraska – Omaha Public Power District***

After extensive negotiations, OPPD signed a contract in 2007 that increased delivery fees to \$100 million per year for North Omaha Power Station and Nebraska City Power Station. This rail rate hike required OPPD, a non-profit municipal utility, to raise residential industrial electricity rates an average of 11% to 27% per month. The Omaha World-Herald reported that this was likely to be the “biggest electricity rate increase in 35 years.”

### ***Railroad Service Issues Adversely Impact Wisconsin Cooperative's Ability to Provide Reliable Electricity – Dairyland Power Cooperative***

Dairyland Power Cooperative is an electric generation and transmission co-op based in Wisconsin. Electricity in the Dairyland System is generated primarily at two coal facilities. One of the facilities receives all its coal needs from direct rail service; the other receives 100% of its coal via barge after the coal is brought from the Powder River Basin to the Mississippi River by rail. Reliable delivery service at both plants is necessary to ensure coal is available in sufficient quantities to produce power to meet demand.

To prepare for disruptions, like all utilities, Dairyland builds a stockpile of coal at its plants. This is especially critical at the Genoa barge-served facility, since winter weather ends the barge shipping season on the Mississippi. Rail coal delivery problems were notably experienced during the 2013 – 2014 winter, and did not significantly improve in the spring or summer. These delivery issues resulted in the co-op falling well short of its established goals to ensure reliability. Dairyland was required to make extraordinary purchases and haul the coal by truck to one of its power plants at a much higher cost of delivery. One train car is equivalent to eight semi-trucks. In addition, Dairyland was forced to use higher cost generation and/or purchased power on the open market, often at a premium, to meet the co-op member's energy needs.

### ***Missouri Company Endures Less Reliable Service after Railroad Merger – Missouri Lime Company***

MLC produces lime and calcium-based products at a facility in Ste. Genevieve, Missouri. After a Class I Railroad acquired the railroads that previously served the plant, MLC noticed a significant decline in the quality of service. MLC considered constructing a railcar storage

facility at the plant that would increase the plant's efficiency and allow it to ship up to an additional 1,000 carloads per year. However, the poor service received by MLC has made it reluctant to make this investment. [Note: Currently, there are seven Class I Railroads: BNSF Railway Company, Canadian Pacific Railway, Canadian National, CSX Transportation, Kansas City Southern Railway Company, Norfolk Southern Railway Company, and Union Pacific Railroad.]

### ***Railroad's Service Issues Adversely Impacts Kansas Non-Profit's Ability to Provide Reliable Electricity – Sunflower Electric Cooperative***

Sunflower, located in Holcomb, Kansas is a consumer-owned, nonprofit co-op, operated by six rural electric distribution co-ops serving homes, businesses and farms in 32 central and western Kansas counties. It provides wholesale power to its members generated by six power plants including the only base load coal-fired electric generating unit (EGU) in the area, the Holcomb EGU.

Holcomb EGU is dependent upon rail for its coal supply deliveries – there are no other reasonable options. Since September 2013, Sunflower has seen dramatic increases in the amount of time it is taking for coal deliveries, sometimes over 11 days. Considering one train load provides Holcomb with only three to four days of coal (versus its goal of having a 30 day minimum of coal inventory), Sunflower's inventory pile is continuously decreasing. To maintain this threshold, Sunflower curtailed generation from mid-March 2014 through mid-June 2014 to save inventory for the summer peak period resulting in approximately 20 days of inventory by mid-July 2104.

### ***Railroads' Market Power Leaves American Farmers without Access to Rail Transportation & No Authority to Address – Washington Potato Council***

Potato growers in eastern Washington State ship roughly 1.7 billion pounds of fresh potatoes annually. Many of these growers are located near railroad lines, but these farmers rarely are able to use them because most of the lines are controlled by one railroad, a railroad that either does not have the capacity to handle a seasonal perishable item like potatoes or in some cases just chooses not to provide that capacity. While a second railroad controls some rail lines in the area, existing contractual agreements (known as "paper barriers") with short line railroads prevent many farmers from having access to these alternative lines. As a result, Washington's potato growers are forced to ship more than 90 percent of their potatoes via truck, which is significantly more expensive. [Note: The *Staggers Rail Act* led to the formation of hundreds of short line railroads that operate track formerly run by a major railroad. Paper barriers are provisions in lease agreements for this track that prevent the short line railroad from providing rail customers access to competing major railroads.]

Making matters worse, potato farmers (along with numerous other commodities) have no legal recourse to appeal their unfair treatment to the Surface Transportation Board. Thirty years ago, the STB's predecessor agency ruled that potato farmers had access to truck competition and therefore the movement of potatoes was "exempt" from the jurisdiction of the Board, meaning that potato growers cannot take their grievances to the Board. This "exemption" has allowed the

rail industry to ignore potato farmers and deny them access to more affordable transportation options.

***Railroad Pricing Forces Manufacturer to Shift Production from West Virginia to Mexico from the United States – M&G Polymers USA***

M&G Polymers manufactures PET, a plastic pellet used to create packaging materials such as soda bottles. M&G has two production facilities in North America – one in Apple Grove, West Virginia and another in Altamira, Mexico. The Apple Grove facility is captive to a single railroad, but shipments from Mexico have access to multiple railroads depending on their point of entry into the United States. As a result, rail rates from Mexico to the western United States are roughly 40 to 50 percent less than rates from West Virginia. This difference in rail rates is pushing PET production away from the plant in West Virginia and to the plant in Mexico, hurting American workers and the economy of West Virginia in the process.

***Imported Goods Often Move Inside the U.S. at Competitive Rail Rates while Goods Manufactured in U.S. Plants Often Move at High Captive Rates – DuPont***

Poor access to rail competition has sent many U.S. chemical companies abroad and forced DuPont, one of America’s largest chemical producers, to consider increased offshore production. By contrast, imported goods normally can access the U.S. railroad system in a number of points, usually resulting in movement of these goods in the U.S. at low, competitive rail rates. In fact, DuPont has testified to the Surface Transportation Board that if DuPont were creating its production facilities today, it would be cheaper to move those facilities overseas and then import their products into the United States, to the detriment of U.S. jobs.

***Citing High Rail Costs, TOTAL’s Customer Moves Plant from California to China – TOTAL***

Railroad monopoly power has hurt TOTAL Petrochemicals and its customers. During so-called “negotiations” over rail shipping prices, TOTAL has seen the railroads define “market rate” as the highest rate that any customer has paid the railroad over a particular route. The railroads then adopt a “take it or leave it” posture, knowing that many of TOTAL’s products can only be shipped by rail. In one case, a customer of TOTAL was forced to shutter its plant in California and move it to China due in large part to excessive rail costs. In another instance, TOTAL saw its own shipping rates increase sharply solely because another shipper had accepted a higher rate over the same line.

***Major Railroad Refuses to Serve Indiana Popcorn Company Making It Non-Competitive in the Export Market – Weaver Popcorn Company***

The Weaver Popcorn Company, based in Indiana, is a family-owned company employing 350 workers. The international popcorn market is a growth area for Weaver but the company has difficulty competing because the lack of railroad access at their facility means the first leg of their shipments must be delivered in smaller quantities by trucks. As a result, Weaver’s shipping

costs are higher than the costs of their competitors in Argentina. Weaver has proposed investing \$1 million of their own money to upgrade local rail facilities to receive major rail service. With major rail service, Weaver projects that it could increase its exports by roughly 30 percent annually. Yet the region's only major railroad, has repeatedly ignored Weaver's requests for service.

***Railroad Service Issues Result in Reduced Inventory to Meet Customers' Power Needs in State and Surrounding Communities – Arkansas Electric***

Arkansas Electric (AECC) is a membership-based generation and transmission cooperative providing wholesale electric power to co-ops which in turn serve 500,000 consumer members/owners in each of Arkansas 75 counties and surrounding states. Beginning in 2013 then through the severe winter of 2014, the major freight rail problems seemed to be somewhat confined to the upper Midwestern portion of the United States. However as 2014 began to unfold, AECC began seeing delays in coal deliveries resulting in coal inventories to drop by up to 50 percent. At one point, an AECC plant had just 16 days of coal inventory.

***Railroad Practices Stifle Growth of Small West Virginia Town – PPG***

PPG is a chemical manufacturer that must ship chlorine to most of its customers via freight rail. PPG's facility in Natrium, West Virginia is captive to one railroad, while its facility in Lake Charles, Louisiana has access to three railroads. In 2010, the rail shipping costs for the Natrium facility were almost 85 percent higher than those in Lake Charles. PPG has been unable to increase jobs and grow their West Virginia facility because rail costs are too high. This has had a negative impact on the region's economy, which is seeing potential growth stifled by an uncompetitive rail system.

Case Studies were pulled from filed proceedings before the Surface Transportation Board and/or written testimony submitted to the U.S. Congress. They are for illustrative purposes.

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