

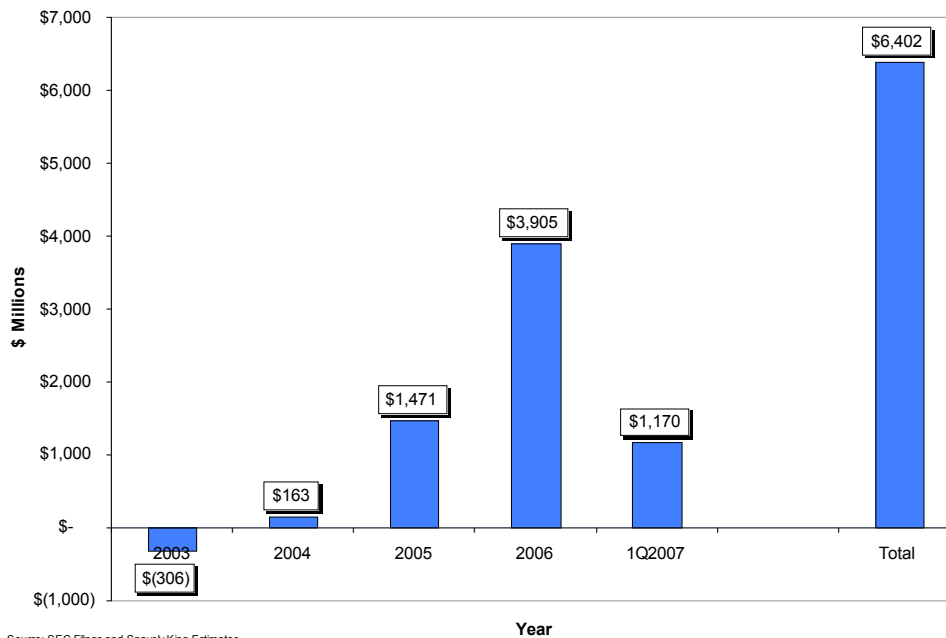
Analysis of Rail Fuel Surcharges 2003-2007

Executive Summary

The American Chemistry Council (“ACC”) requested Snavely King Majoros O'Connor & Lee, Inc. (“Snavely King”) to analyze railroad fuel surcharge revenue and fuel costs¹. We focus on 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 Pacific² (“Study Group”).

Snavely King previously identified serious issues with the Class I railroads’ fuel surcharge process. In this report we show that those defects persisted for years. During the study period the major U.S. railroads sought and collected a multi-billion dollar over recovery of fuel costs. *Using railroad generated data*, we estimate over recovery of fuel surcharges for the Study Period to be at least \$6.4 billion³, as illustrated in the following chart.

Preliminary Estimate of Over Recovery



¹ Snavely King has previously studied Class I Railroad fuel surcharge programs on behalf of the ACC. Snavely 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. The 2003-2007 results are consistent with our initial estimate of the over recovery for 2005 presented in our April 2006 Report. Our April 2006 partial estimate of the 2005 Over Recovery totaled \$902 million.

² 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 operations take place in Canada or are trans-border movements: the CN and CP subsidiaries have not been included in this study.

³ Sensitivity tests indicate that the over recovery could range well above this \$6.4 billion estimate.

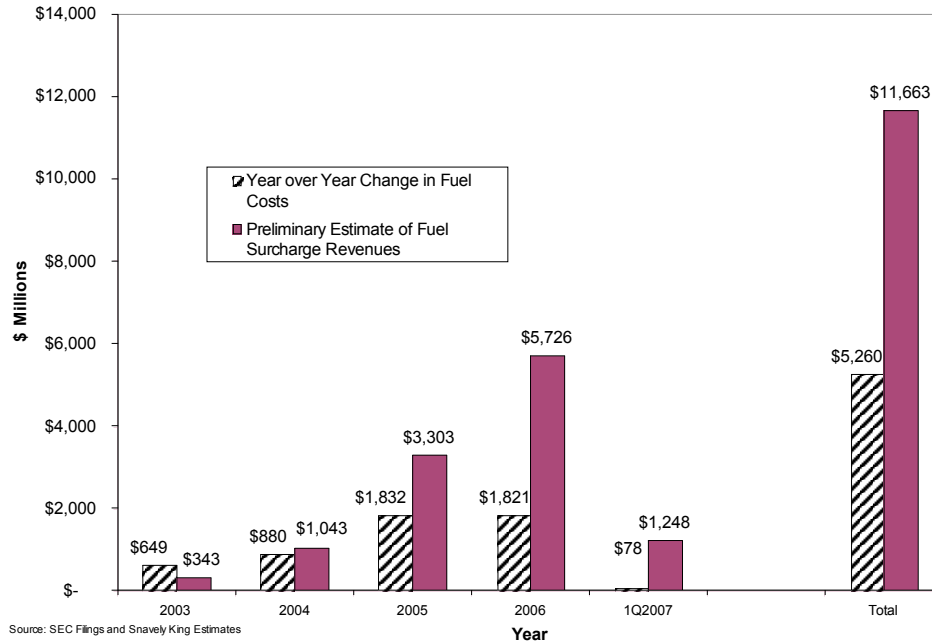
While the U.S. Class I railroads saw dramatic increases in their fuel costs during the Study Period, they used fuel surcharges aggressively, transforming cost recovery mechanisms into profit centers. During the Study Period, Snavely King estimates that the five major US railroads in the Study Group collected \$11.7 billion in fuel surcharge revenue in response to a \$5.3 billion increase in fuel costs.

Preliminary Estimate of Fuel Surcharge Revenue Collected by the Study Group (\$ Millions)

2003	2004	2005	2006	1Q2007	Total
\$343	\$1,043	\$3,303	\$5,726	\$1,248	\$11,663

Comparing the fuel surcharge revenues collected by the Study Group and the total year over year change in fuel costs during the Study Period shows clearly that the railroads over recovered their fuel costs. While the graph below indicates that fuel surcharges may have initially fallen short of recovering the incremental increase in fuel costs, over recovery of those costs began in 2004 and expanded rapidly, with the cumulative over recovery exceeding \$6.4 billion during the Study Period.

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



Notes on Methodology

The data used in the report was drawn from submissions by the Study Group carriers to the U.S. Securities and Exchange Commission (“SEC”). The reports included Annual Reports (10-K) and Quarterly Reports (10-Q).

Snavely King extracted fuel cost and fuel surcharge revenue reported to the SEC by the Study Group carriers. We estimated that data in those instances where the carriers did not report the data.

The calculations are simple. For each railroad in the Study Group, we subtracted a given year’s fuel cost from the prior year’s fuel cost to estimate incremental fuel cost. Covering the incremental fuel cost is the purpose of the fuel surcharge. In the final step we subtract the incremental fuel revenue from the incremental fuel cost. Over recovery occurs when incremental fuel revenue exceeds incremental fuel cost. For example:

1. 2006 fuel cost minus 2005 fuel cost = incremental 2006 fuel cost
2. Compile 2006 fuel surcharge revenue
3. 2006 fuel surcharge revenue minus incremental 2006 fuel cost = 2006 over recovery or (shortfall)

To the extent estimates were needed to supplement the reported data, Snavely King developed and applied conservative assumptions to estimate that data. Because only UP and BNSF reported fuel surcharge revenue, Snavely King estimated fuel surcharge revenue for the remaining railroads in the Study Group. We estimated surcharge revenue using the lowest monthly surcharge percentage applied by NS, CSXT and KCS respectively for each year during which we developed surcharge revenue estimates.