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UTILITIES, RAILROADS AT ODDS | Delivery system faulted

## In KC, regulator hears venting on rail service



KEITH MYERS | THE KANSAS CITY STAR

Utilities say part of the problem with rail service is the lack of competition among railroads. The utilities are urging a federal panel to set service standards, which the railroads oppose.

**It's deteriorating, while shipping rates are rising, say executives who need deliveries of coal.**

By RANDOLPH HEASTER  
The Kansas City Star

As the July heat has begun to boost demand for electricity, utilities from the region shared their frustrations Wednesday with a federal regulator over their coal shipments by the railroads.

The Department of Transportation's Surface Transportation Board held a hearing in Kansas City and listened to comments from utility and railroad executives on the current state of the delivery system, particularly from the coal-rich Powder River Basin in Wyoming and Montana.

According to utility representatives, service is deteriorating while shipping rates are rising.

"In late 2003 or early 2004, the railroads drove a stake through

the heart of competition, and now it's dead," said Dennis Rackers, director of procurement for Dairyland Power Cooperative in La Crosse, Wis. "Since then, it's been a good time to be a railroad."

Shipping rates have nearly doubled in the past two years, according to several utility executives. Meanwhile, rail delivery of the coal needed to generate electricity at power plants has become

## RAILROADS: Regulator hears utilities' frustrations

**FROM CI** increasingly erratic and unreliable, requiring utilities to often buy power on the spot market at higher costs.

While utility representatives urged the board to establish stronger oversight procedures with the railroads, the board Wednesday was just taking testimony and asking questions.

Railroad representatives spoke first and discussed the capital investments that were being made to handle the greater volumes the industry has experienced in the past several years. The prospect of a growing ethanol market and the ability of railroads to handle that commodity in the future were also discussed.

A board commissioner asked whether there was good communication between railroads and utilities during times when electricity demand spikes and utilities need to stockpile their coal inventories.

"In general, yes," said Christopher Jenkins, CSX Transportation's vice president of coal. "There's constant dialogue between us and our utility customers." The dialogue used to lead to compromises between the railroads and utilities when service problems arose, said Dave Laffere, representing the Western Coal Traffic League, which includes Kansas City Power & Light Co.

"Unfortunately, these compromises are becoming more rare," said Laffere, who also is KCP&L's manager of fuels. "The carriers are becoming more aggressive in their financial goals while de-emphasizing service commitments."

Utilities say part of the problem is the lack of competition among railroads. The utilities are urging the Surface Transportation Board to set service standards, which the railroads oppose.

"We've basically got two railroads in the West (Union Pacific Railroad and BNSF Railway) and two in the East (Norfolk Southern and CSX)," said Steve

Sharp of the Arkansas Electric Cooperative Corp. "They've pretty much decided not to compete against each other."

Although the Association of American Railroads decided not to participate in Wednesday's hearing, the group representing the rail industry has rejected the contention that consolidation has resulted in an anti-competitive situation.

"The implication is that railroads can engage in anti-competitive conduct free of government oversight," said a position paper on the group's Web site. "This is not true. In fact, railroads are subject to antitrust laws that prohibit agreements among railroads to set rates, allocate markets, or otherwise unreasonably restrain trade."

Sharp said Arkansas Electric, a power wholesaler to 17 Arkansas-based electric cooperatives, has not received its full shipment of coal from the Powder River Basin since 2005 because of service problems. The company currently is being forced to import some of its coal from Indonesia.

Kansas City Southern is the smallest of the major railroads, with its network running mostly north-south through the middle of the country and into Mexico. Darin Selby, assistant vice president of sales and marketing in the coal-business unit, said Kansas City Southern did not originate coal shipments, but did make deliveries to customers.

"We're a relatively small part of the supply chain as a terminating carrier," he said. "But we don't think the government should focus just on the railroad portion of the energy supply network."

Selby said in order to handle greater coal volumes in the coming years, Kansas City Southern would expand its line capacity, grow terminals and acquire more locomotives.

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