

9/30/04

ISSUE ALERT

RAIL SERVICE PROBLEMS THREATEN OPERATION OF COAL-FIRED POWER PLANTS

Users of both eastern and western coal are experiencing significant rail service problems that are threatening the reliability of coal-fired power plants.

Where electric utilities own and operate coal-fired power plants, the utility purchases coal “at the mine mouth” and arranges for the shipment of the coal to their power plants. Typically, the utility supplies the coal hopper cars, but the railroad supplies the locomotives and the crews for the movements. The coal is moved in “unit trains”, generally of 100 to 135 cars, that only move coal to a single power plant.

To avoid running into a shortage of coal that could cause a power plant to shift to expensive natural gas or even to cease operation, owners and operators of coal-fired power plants maintain reasonable coal stockpiles “on the ground” at their power facilities. The maintenance of efficient operations requires the schedule and reliable delivery of a significant number of unit trains.

This year, however, utilities are experiencing major rail service problems that are hindering the ability to maintain sufficient amounts of coal “on the ground” that is required for safe and reliable operation of their facilities. In fact, some power plants have come perilously close to running short of coal. The problem is of sufficient gravity that the Office of the Vice President of the United States this summer convened a meeting of railroads, power producers and coal producers to discuss the matter.

Apparently, the source of the problem is a shortage of railroad crews, a shortage of locomotives and even a shortage of coal hopper cars for those facilities that do not own or lease their own cars. More than one of the nation’s major railroads seems to have planned poorly for the number of crews, locomotives and cars that would be necessary as the nation’s economy recovers and rail movements increase. Allegedly, the railroads are addressing this problem, but time will be required for the manufacture of the needed locomotives and rail cars and the recruiting and training of the crews. In the meantime, the railroads are allocating the shortage among their customers.

The Long Term Solution: Rail customers, particularly captives, believe that part of the continuing problem with rail service is caused by the railroad industry’s economic dependence on captive traffic and poor management decisions. Instead of improving itself through competition, as with all other American deregulated industries, the railroads can “fall back” on their captive traffic – and can also take that traffic for granted. Captive rail customers believe the rail industry would learn to provide improved service if it operated in a competitive environment. Pending federal legislation, if enacted, would move the American railroad industry toward that improved competitive environment. Meanwhile, coal users have little option but to scramble to ensure sufficient supplies of coal for the coming winter heating season.