

**Testimony of
The Transportation, Elevator, and Grain Merchants Association**

**On
Rail Fuel Surcharges**

**Before the Surface Transportation Board
Department of Transportation**

May 11, 2006

Mr. Chairman and Commissioner Mulvey:

Good morning. My name is Eric Wilkey and I am vice-president of Arizona Grain, Inc. My office is in Casa Grande, Arizona. I am also chairman of the Transportation, Elevator, and Grain Merchants Association (TEGMA) on whose behalf I appear before you this morning.

TEGMA is a North American trade association that brings together global grain companies, domestic shippers and receivers, railroads, ports, storage houses, inspection agencies and others involved in the shipment of North American grain to customers all over the world. TEGMA's mix of membership provides it with a unique perspective on grain handling and transportation. Thank you for hosting this hearing. We have shared our expertise with you in the past, and we welcome the opportunity to do so again.

TEGMA comes to this hearing to ask the Surface Transportation Board (STB) to encourage uniformity in the application of fuel surcharges. As you are aware, fuel costs have been making front page news for awhile now. Recently, we have seen headlines about oil prices topping \$75 per barrel, the President announcing plans to delay deposits to the Strategic Petroleum Reserve until the fall, and gasoline prices eclipsing \$3 per gallon across the country.

The volatility and generally escalating fuel prices over the last two years have negatively impacted a number of industries, and the pinch is being felt by everyone. From Dominoes pizza delivery to commercial airfare, fuel surcharges have become an accepted practice to help service providers manage the volatility of fuel prices. Shipping grain is no exception. TEGMA does not dispute the right of US rail carriers to utilize a fuel surcharge to offset rising fuel costs, but at the same time fuel surcharges should not become profit centers for rail carriers.

Agricultural markets are not unlike other markets. They are competitive, dynamic and global in nature. An important component in maintaining a competitive position for US agricultural producers is a continuation of competitive freight rates for delivery of products. US producers face stiff competition from other countries that have lower production costs; however, an efficient, economical transportation and handling industry has kept American farmers competitive in world markets. As fuel prices continue to rise and transportation costs rise with them, the competitiveness of US agriculture is jeopardized.

TRANSPORTATION, ELEVATOR, AND GRAIN MERCHANTS ASSOCIATION

1300 L STREET, N.W.

SUITE 1020

WASHINGTON, D.C. 20005

202-842-0400

That is why today, TEGMA will take this opportunity to focus the discussion for a few minutes on developing a market-based solution that will allow shippers to better manage their fuel price exposure and overall transportation costs.

In April 2005, TEGMA held a fuel surcharge workshop in Kansas City, Missouri, to address the growing concern among our railroad customer members about the application of fuel surcharges by rail carriers. Every US Class I rail carrier was invited, but antitrust concerns kept the rail carriers from taking part. The attendees of the workshop developed a proposal for an over-the-counter instrument that would allow railroad customers to hedge the financial risk associated with fuel price volatility. Since hosting the workshop, TEGMA sent letters outlining the proposal to each of the Class I rail carriers and conducted meetings to discuss the details. We also actively advocated for this proposal with the Department of Transportation and with congressional offices as part of our annual Washington Fly-In, which we held earlier this week. We also included the proposal in our testimony for the hearing you held last fall on the Staggers Act.

In order to effectively implement an over-the-counter instrument to hedge rail fuel surcharges, there must be uniformity in their application. TEGMA encourages the STB to do everything in its power to promote such uniformity among Class I rail carriers, which would create the transparency necessary to build a useful hedging instrument.

Currently, rail carriers have a large degree of flexibility in determining the fuel surcharge rate levels as well as the underlying index used to calculate the rate. The highly individualized formulas that result from this flexibility hamper the ability of the marketplace to structure an effective hedge instrument. As a result, shippers, like me, cannot, in a cost-efficient manner, hedge the risk of fuel cost escalation through the use of existing futures instruments or over-the-counter products. If railroad customers are unable to manage their fuel price risk, it jeopardizes their ability to serve their customers competitively.

If U.S. rail carriers adopted a mileage-based fuel surcharge formula and used a common fuel price index, such as NYMEX Heating Oil or the National US Average On-Highway Diesel Fuel Prices index, an effective hedge tool could be built for railroad customers by those in the futures and derivatives industries. This solution would allow railroad customers to go to the market and hedge their exposure. This proposal that TEGMA has presented here today relies on the market to help companies manage their individualized exposure and balances the interest of both rail carriers and their customers.

In conclusion, Mr. Chairman, we compliment you and Commissioner Mulvey for your efforts and your attention to this important topic. We look forward to working with you on uniform application of fuel surcharges and to continue to push the industry toward ever more efficient and productive operation.