RENEWABLE FUELS ASSOCIATION

Friday, August 16, 2024

Surface Transportation Board
ATTN: Docket Administrator
395 E Street, S.W.
Washington, DC 20423-0001

Re: Comments on Strategies, Innovations, and Rail Service Impact in the Ethanol Industry (Docket No. EP 775)

Dear Members of the Surface Transportation Board,

On behalf of the members of the Renewable Fuels Association (RFA), I appreciate the opportunity to provide input regarding recent trends and strategies for growth in the freight rail industry, and the impact it has on the U.S. ethanol industry.

RFA's mission is to drive expanded demand for American-made renewable fuels and bioproducts worldwide. Founded in 1981, RFA serves as the premier organization for industry leaders and supporters. With over 300 members, we work every day to help America become cleaner, safer, and more economically vibrant.

The U.S. ethanol industry is a critical component of both domestic and international transportation markets, with around 200 ethanol plants across the country. This sector is vital for corn producers and contributes significantly to economic opportunities, particularly in rural America. A recent study estimated that the ethanol industry contributed $54 billion to the U.S. Gross Domestic Product, with over 78,000 direct jobs and over 400,000 indirect jobs.[1]

The relationship between the freight rail industry and ethanol industry is closely intertwined, as roughly three-quarters of US ethanol is shipped by rail. Additionally, rail is used to transport coproducts of ethanol processing, such as distillers' grains, an ingredient in livestock and poultry feeds. Efficient, reliable, and effective transportation services are crucial for this industry, which relies on rail, truck, and barge transportation for both inbound products (grain) and outbound fuel (ethanol). Rail is increasingly utilized due to its efficiency in bulk shipping.

[1] J. Urbanchuk, Contribution of the Ethanol Industry to the Economy of the United States in 2023, February 1st, 2024. https://d35t1syewk4d42.cloudfront.net/file/2659/RFA%202023%20Economic%20Impact%20Final.pdf

Ethanol Rail Industry Strategies and Innovations

The US ethanol rail industry is actively working to address recent trends and stimulate growth in freight rail transportation. Those key strategies include:

1. **Infrastructure Investment**: Ethanol producers are investing in modernizing shipping infrastructure, such as expanding and upgrading rail loading and unloading facilities. Enhanced infrastructure helps streamline operations and reduce turnaround times, making rail a more attractive option for ethanol shippers. However, the industry has concerns about whether the rail industry is making the necessary investments in infrastructure and crews to accommodate the future needs of the ethanol industry and its customers.
2. **Enhanced Safety Measures**: Innovations in tank car design and safety protocols are being adopted to address safety concerns and regulatory requirements. These improvements increase confidence among shippers and rail carriers, ensuring safe and efficient ethanol transportation.
3. **Operational Efficiency**: To some extent, rail operators are implementing advanced logistics and scheduling systems to optimize railcar utilization and minimize delays. Technologies such as real-time tracking and predictive maintenance are helping to improve service reliability and efficiency. However, the rail industry's record to date has been mixed, and data show that ethanol shipments are often affected the most of any product when there are disruptions in the rail system.
4. **Environmental Benefits**: Ethanol producers highlight rail's environmental advantages, such as better fuel efficiency and a lower carbon footprint compared to other transportation modes. This aligns with growing environmental regulations and sustainability goals.

Ethanol Shippers' Plans and Future Use of Rail

US ethanol shippers are planning in the long-term to increasingly leverage rail transportation, this is due primarily to its cost-effectiveness and capacity advantages. These future plans include:

1. **Long-Term Contracts**: Shippers are negotiating long-term contracts with rail carriers for reliable and predictable transportation solutions, which allows for better production and distribution planning.
2. **Expansion of Rail Networks**: There is a need to expand rail networks to overcome existing bottlenecks, reach new markets, and improve access to export terminals. By expanding rail connectivity, ethanol producers can tap into new growth opportunities and enhance market reach.
3. **Collaborative Partnerships**: Shippers are exploring partnerships with rail carriers to develop integrated supply chain solutions, leading to more efficient and coordinated transportation services.

Factors Affecting Shipment Decisions

Several factors influence ethanol shippers' decisions regarding rail transportation. These include:

1. **Cost Competitiveness**: Competitive rail rates are crucial. Rail transportation must be favorable compared to other modes, such as trucking or pipelines, to encourage greater rail utilization.
2. **Service Reliability**: Consistent and reliable service is a top priority. Delays or disruptions impact supply chain efficiency and lead to higher costs. Rail carriers must ensure timely and dependable service to maintain shipper confidence.
3. **Regulatory Compliance**: Compliance with safety and environmental regulations is essential. Shippers must navigate complex regulatory landscapes, and rail carriers play a vital role in ensuring adherence to these standards. The ethanol industry has a strong safety record, and the Renewable Fuels Association has invested substantial time and resources in training first responders.

Service Challenges and Economic Impact

Analysis of U.S. Class I railroad performance conducted by HigbyBarrett (see attached analysis) provides overwhelming evidence that Class I railroads differentiate service levels across customers. During periods of capacity constraints—whether due to equipment, weather, or labor challenges—the differentiation in service levels becomes more pronounced. Ethanol and grain shippers are particularly adversely impacted, while service levels for crude oil, coal, and intermodal customers remain consistent. This discrepancy is especially egregious between crude oil and ethanol shippers, as the equipment and crew requirements are essentially identical, yet service levels differ significantly.

The adverse economic impact of poor rail service on the ethanol industry is severe due to the industry's dependence on both inbound (grain) and outbound (ethanol and dried distillers' grain) rail service. Unique operating conditions of ethanol plants make efficient inbound and outbound rail service critical, given their limited storage capacities. Service impediments can lead to increased operating costs and even plant closures.

The analysis utilizes publicly available weekly performance reports required by the Surface Transportation Board. Service levels are evaluated through dwell times at terminals, average train speeds, and volumes by commodity type, covering the period from 2017 to Fall 2023.[2] This data supports oversight by the STB to ensure service compliance by all Class I railroads. The differentiation in service levels across shipping customer types is consistent across all Class I railroads, reflecting the industry's tendency to prioritize higher-value customers [3].

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[2] HigbyBarrett, How Rail Constraints Impact Ethanol Producers, 2024

[3] Surface Transportation Board, Weekly Performance Reports, 2017-2023 https://www.stb.gov/reports-data/rail-service-data/

Recommendations for Rail Carriers

In order to increase ethanol shippers' use of rail, carriers should:

1. **Competitive Pricing**: Offer transparent and flexible pricing structures to attract more ethanol shipments.
2. **Enhanced Service Quality**: Focus on improving service reliability and reducing transit times. investing in the technology, infrastructure, and labor necessary to enhance operational efficiency will benefit shippers.
3. **Customer Support**: Provide dedicated support and responsive customer service to address shippers' needs and build long-term partnerships.

Opportunities for Growth in the Freight Rail Industry

RFA believes that the freight rail industry has several opportunities for growth. These include:

1. **Increased Modal Shift**: Promoting rail's benefits can attract shippers seeking to optimize their supply chains.
2. **Sustainability Initiatives**: Highlighting rail's environmental advantages can attract environmentally conscious shippers and align with broader sustainability goals.
3. **Technological Advancements**: Investing in technologies like autonomous trains and digital platforms can enhance operational efficiency and create new growth avenues.

In conclusion, through cooperation the ethanol and rail industries can continue to proactively address challenges and pursue innovative solutions to reverse recent trends and promote freight rail growth. By continuing to invest in infrastructure, safety, and efficiency, and by fostering collaborative partnerships, both shippers and rail carriers can drive positive change in the industry.

Thank you for considering these comments. I look forward to the continued development of policies that support the growth and sustainability of the freight rail sector.

Sincerely,

Justin Schultz
Director, Environmental, Health & Safety
Renewable Fuels Association