



City of Grand Island

Tuesday, November 23, 2004

Council Session

Item G9

#2004-298 - Approving Circular with Union Pacific Railroad for Continued Coal Transportation to Platte Generating Station

Staff Contact: Gary R. Mader

Council Agenda Memo

From: Gary R. Mader, Utilities Director
Doug Walker, City Attorney

Meeting: November 23, 2004

Subject: Approving Coal Transportation Circular with Union Pacific Railroad – Utilities Department

Item #'s: G-9

Presenter(s): Gary R. Mader, Utilities Director

Background

Grand Island currently has a contract with the Union Pacific Railroad for movement of coal fuel from the coal fields of Wyoming to the City's Platte Generating Station. The current contract expires December 31, 2004. Union Pacific has firmly stated that the current contract will not be renewed. In lieu of a standard contract form, UP is requiring a new administrative form referred to as a "Circular". The dictated Circular form relieves the railroad of obligation to serve beyond the "...use of reasonable efforts to transport coal...", while retaining the customers obligations for minimum volume commitment and penalties for over/under loaded railcars, delays in loading or unloading, hold charges, etc. The Circular also includes provisions to raise freight costs for diesel fuel price increases. The circular proposed for the City's movement is UP Circular 111. A copy of the summary portion of the Circular is attached.

City Utilities and Legal staff, along with our consultants, Slover and Loftus, met with Union Pacific representatives in late October to thoroughly review the new processes and terms governing the coal freight movement. Some adjustments in delivery terms to PGS were made but, overall, the new operational and administrative processes remain unchanged from the original railroad submittal.

The Circular provides two term length options, one year and three year. The one year option is priced at \$9.62 per ton shipped. The three year option is priced at \$8.66, \$8.92 and \$9.19 per ton respectively for calendar years 2005, 2006, and 2007. The one year option is priced substantially above the highest of the three year prices.

Discussion

Acceptance of the one year option would add approximately \$548,000 plus the diesel fuel cost adder to coal transportation costs for calendar year 2005. Acceptance of the three year option would add approximately \$140,000, \$250,000, and \$365,500 for years 2005, 2006, and 2007 respectively, plus the diesel fuel cost adder. At its current level, the diesel fuel cost adder would be approximately \$300,000 per year for the Grand Island traffic.

Alternatives

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve acceptance of UP Circular and freight rates for a one year or three year term
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

Recommendation

City Administration recommends that the Council approve UP Circular 111, Option 2 to provide continued freight service for coal to Platte Generating Station.

Sample Motion

Move to approve UP Circular 111, Option 2.



UP 111

Item: 4710-B
Item Desc: NE, Grand Island, Platte Generating Station

Unit Coal Trains from SPRB to Platte Generating Station,
 Grand Island, NE

For billing purposes use the following rate authority: UP 111-4710-B

STCC/GROUP	STCC	DESCRIPTION
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11		Coal
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Prices are subject to Fuel surcharges.

GENERAL RULE ITEM 4710 (Revision: B)

Minimum Volume Requirement for Option 2 rates is 95 percent of Net Tons received at Platte Generating Station, Grand Island, NE from Campbell and Converse Counties in Wyoming via all modes of transportation.

Train shall be delivered to the plant in two sections. Free time to unload 110 railcars will be 72 hours, exclusive of the time it takes for Railroad to place the second section for unloading after Shipper releases the first section.

GENERAL RATE APPLICATION RULES FOR ITEM 4710-B

- Price applies in railroad owned or leased equipment.
- Price applies if minimum tender per shipment is 10,500 Net Ton(s). Price applies if minimum tender per shipment is 1 Train.

APPLICATION AND RATES

COLUMN	RATE APPLICATION RULES
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- | | |
|----|---|
| 1. | Rates are in U.S. dollars Per Net Ton.
Subject to a minimum lading weight of 100 tons per car. |
| 2. | Rates are in U.S. dollars Per Net Ton.
Subject to a minimum lading weight of 100 tons per car. |
| 3. | Rates are in U.S. dollars Per Net Ton.
Subject to a minimum lading weight of 100 tons per car. |

	Col. 1 Option 2	Col. 2 Option 2	Col. 3 Option 2	Route Code/Group
STCC: 11 Coal From: ENERGY SPRB MINES To: NE, GRAND ISLAND	Exp. 12/31/2005 8.66	Eff. 01/01/2006 Exp. 12/31/2006 8.92	Eff. 01/01/2007 9.19	UP

R E S O L U T I O N 2004-298

WHEREAS, the City's current coal transportation contract with the Union Pacific Railroad Company expires on December 31, 2004; and

WHEREAS, in lieu of renewing such contract, Union Pacific Railroad Company is requiring the use of UP Circular 111; and

WHEREAS, according to the terms of UP Circular 111, the cost for coal transportation for a one-year period is \$9.62 per ton plus the diesel fuel cost adder; and

WHEREAS, the three year term for coal transportation are \$8.66, \$8.92, and \$9.19 per ton for years 2005, 2006 and 2007 respectively, plus the diesel fuel cost adder; and

WHEREAS, it is recommended that the City approve UP Circular 111, for a three-year term to provide continued freight service of coal to the Platte Generating Station; and

WHEREAS, the City Attorney has reviewed and approved UP Circular 111.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that UP Circular 111 is hereby approved for the transportation of coal to the Platte Generating Station for the years 2005, 2006 and 2007.

BE IT FURTHER RESOLVED, that the Mayor is hereby authorized and directed to execute UP Circular 111 on behalf of the City of Grand Island.

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Adopted by the City Council of the City of Grand Island, Nebraska, November 23, 2004.

RaNae Edwards, City Clerk

Approved as to Form <input type="checkbox"/> _____ November 18, 2004 <input type="checkbox"/> City Attorney
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