



# ASSOCIATION OF AMERICAN RAILROADS

**Office of the President**  
Edward R. Hamberger  
President and Chief Executive Officer

June 25, 2003

The Honorable Spencer Abraham  
Secretary  
United States Department of Energy  
1000 Independence Avenue, S.W.  
Washington, DC 20585

Dear Mr. Secretary:

I am writing to indicate the strong support of North America's freight railroads for necessary actions by the public and private sectors to address the natural gas crisis. The Association of American Railroads (AAR) commends you for convening a Natural Gas Summit on Thursday, June 26 to discuss this growing problem. At best, the problem seems likely to delay the nation's economic recovery. At worst, it could become a chronic, long-term constraint that ultimately lowers the nation's standard of living.

Federal Reserve Board Chairman Alan Greenspan said recently, "Today's tight natural gas markets have been a long time in coming, and futures prices suggest that we are not apt to return to earlier periods of relative abundance and low prices anytime soon." With only limited opportunities to increase natural gas supplies in the near future, we agree with your recent observation that the nation's emphasis must be on conservation, energy efficiency, and fuel switching.

In this context, AAR endorses increased use of coal for electricity generation now and over the longer term. The restrictive and contradictory environmental policies of the past several years on a national level have combined to make coal use difficult and to promote the use of natural gas. Additional restrictions that have been placed on coal at the state level have exacerbated the problem.

In general, we believe that federal policies should discourage the use of natural gas for baseload electrical generation. In our view, new gas-fired plants should be employed for peaking purposes only, or at a minimum should be fully capable of conversion to coal, consistent with the intent of the Fuel Use Act. These steps would ensure that growth in electricity production does not divert future natural gas supplies away from critical industrial and residential uses, thus exacerbating the current shortage.

June 25, 2003  
Page 2

In preparation for the Natural Gas Summit, AAR convened a meeting of railroad coal marketing experts. As you know, two-thirds of coal shipments are delivered by rail. In 2002, coal accounted for 44 percent of rail tonnage, 25 percent of carloads, and 21 percent of revenue for Class I railroads. Through technological advances, service improvements, and lower rates, railroads continue to show that they are willing and able to provide consistently high value to coal shippers throughout the nation.

I am pleased to report the freight railroads' strong conviction that the industry is fully prepared to meet any reasonably foreseeable increase in transportation demand necessary to abate the natural gas shortage. In the short term, freight railroads have sufficient coal cars, track capacity, and manpower to handle whatever increase materializes. In the longer term, railroads are committed to making necessary investments to address any significant, sustained growth in the coal transportation marketplace.

I am pleased to offer this contribution to the National Petroleum Council's Natural Gas Summit, and I would ask that AAR's comments be incorporated into the official proceedings of this important session.

Sincerely,



Edward R. Hamberger

cc: Mike Smith, Assistant Secretary for Fossil Energy  
United States Department of Energy