

## Mileage Equalization Penalty Frequently Asked Questions

**Question:** What is Mileage Equalization Penalty and how does it compare with Excess Mileage Penalty?

**Answer:** Railroads charge private car owners Mileage Equalization Penalty based on the ratio of total empty miles to total loaded miles. If total empty miles exceed total loaded miles on a calendar basis, by more than an empty allowance percentage (tank cars - Canada and the U.S., freight cars - Canada only), a penalty is assessed to the car owner. Procor (as car owner) charges the lessee of the car per the Master Lease Agreement. Each Spring Issue of Procor's On track! newsletter includes the mileage equalization rates and allowance. On track! can be accessed from our website under Publications.

Excess Mileage Penalties are charged by Procor when total miles traveled exceed the negotiated mileage caps outlined in individual riders of our lease agreements, on a calendar basis and pro-rated for partial years.

**Question:** On what authority do the railroads charge mileage equalization?

**Answer:** In Canada, both CN Rail and CP Rail have individual mileage tariffs (CN 6544, CP 6544) outlining the calculation and what mileage is included in the calculation. In the U.S., all participating railroads adhere to Tariff 6007. Equalization penalties in the U.S. are for all participating railroads combined.

**Question:** How is Mileage Equalization Penalty calculated?

**Answer:** In Canada, the calculation is done separately for CN and CP. In the U.S., the calculation is based on the total loaded and empty miles for all U.S. roads combined. In Canada, tank cars and hopper cars are calculated separately and in the U.S., only tank cars are subject to mileage equalization penalties.

For each individual car, the allowable empty miles calculation is: Total Loaded Miles X (100% + Empty Allowance Percentage). The allowable empty miles, are then compared to the total empty miles. If the total empty miles exceed the allowable empty, the difference is subject to penalty and is multiplied by the appropriate rate (may vary by road). If the total empty miles are less than the allowable miles, there is no penalty since the miles equalize.

### Example #1

Total tank car loaded miles	= 100,000
Total tank car empty miles	= 104,000
Allowable empty miles @5% *	= 100,000 X 1.05
	= 105,000 miles
Penalty	= 0
	(since the allowable is greater than the empty)

### Example #2

Total tank car loaded miles	= 100,000
Total tank car empty miles	= 108,000
Allowable empty miles @5% *	= 100,000 X 1.05
	= 105,000 miles
Penalty	= applicable rate x 3,000 miles (since the allowable is less than the empty)

\* Demonstration allowance percentage. Allowance percentages can change every year as determined by Canadian and U.S. roads.

Question: Why am I being billed for this?

Answer: 1) Equalization penalties are the way the railroads encourage shippers to be more efficient and ensure that empty moves are matched with loaded revenue-generating moves.

2) The Master Lease Agreement between the lessee and Procor allows mileage equalization penalties to be billed to the lessee.

**Question:** How can I be prepared for this annual billing when it occurs seven or eight months after the mileage year?

**Answer:** Each month in your invoice package, Procor provides you with an equalization statement. This statement informs you of your year-to-date equalization position by road. The percentage that is included on this statement is based on the ratio of the total empty miles to the total loaded miles. If you see that empty miles are exceeding loaded miles by more than the empty allowance percentage, you can expect to receive a bill at the end of the mileage year unless you make changes to your shipping patterns, if at all possible.

Unfortunately, the mileage that is reported in your monthly invoice package is at least three months old and you may not be able to react in time to correct any excess empty miles on a current basis.

**Question:** Why does it take so long to bill me for this?

**Answer:** The mileage year typically ends in March of the following year, and usually the railroads require an additional month to ensure all adjustments have been made.

After preliminary analysis of this data, Procor will issue a miscellaneous invoice for the prior year equalization penalty and the billing will be accompanied by an Excel spreadsheet supporting the charge.

Question: What can I do to minimize or eliminate a mileage equalization position at the end of the year?

Answer: Equalization penalties are generated by the two major railroads in Canada individually and all the U.S. roads as a group. Some ways to minimize the penalty are:

- a) Use the same road on an empty return trip as you used for the loaded trip (minimize penalty in Canada).
- b) Try to use reverse routings, avoid diversions, and consider distance to storage yards when you are not using the cars.
- c) Since equalization penalties are on a calendar basis, try to make sure that if you have loaded moves at the end of year the cars are returned to you empty in the same year.

Each month Procor provides a summary equalization statement by railroad, in your lease invoice package that shows the percentage of empty miles to loaded miles. If your year-to-date empty miles are exceeding loaded miles by more than the empty allowance percentage, then you should investigate which cars are causing the excess empty miles.

If you require assistance, please send an e-mail message to [mileage@procor.com](mailto:mileage@procor.com) and we can provide you with movement history by car.

Question: What if the empty movement reported by the railroad is wrong? What can I do?

Answer: You can contact your CN or CP representative and identify the error, or send an e-mail message to [mileage@procor.com](mailto:mileage@procor.com) and we can contact the road on your behalf. Please provide details of the move that you think is incorrect along with any supporting documentation you may have.

Question: What can I do if because of my loading patterns, I end one year with an extra loaded move and begin the next year with an extra empty move?

Answer: Unfortunately, equalization penalties are assessed by the railroads on a calendar year basis so the benefit of having an additional loaded move in one year does not carry forward to the next. Matching loaded and empty moves in a given year is key.

Question: How is the equalization penalty billed to me?

Answer: Miscellaneous invoices are issued for equalization penalties. A supporting worksheet is sent with the invoice or will be e-mailed separately. The worksheet supports the charge and will identify cars with excess empty miles.

If you require additional information about the actual movement of the car, please send an e-mail message to [mileage@procor.com](mailto:mileage@procor.com).

Question: Why is Procor, rather than the railway invoicing me?

Answer: Procor is the owner of the car and the railroads do not have records of leasing customers by car ID. Therefore, it is easier for the railroad to bill the owner of the car rather than the lessee.

Question: Why is Procor obligated to pay the railways on behalf of the lessee prior to obtaining the lessee's consent?

Answer: In order to be allowed to have our equipment run on the railroads lines, Procor (as owner) has to abide by the rules developed by the Association of American Railroads. The charging of equalization penalties and the payment of them are part of the rules established by the A.A.R.

The Master Lease Agreement between the lessee and Procor allows mileage equalization penalties to be billed to the lessee.

Question: Can Procor audit these charges from the railway to ensure they are correct prior to invoicing the lessees? ie. Was it under the lessee's authority to move the car?

Answer: Procor does audit the charges prior to invoicing the lessee, however, we cannot provide a complete audit as we do not know the shipping patterns of the lessee. The audit has to be on a macro level. If there are questions about specific movements, send an e-mail message to [mileage@procor.com](mailto:mileage@procor.com) for assistance.