

Before the
SURFACE TRANSPORTATION BOARD
Washington, D.C. 20423

REVIEW OF THE SURFACE
TRANSPORTATION BOARD'S
GENERAL COSTING SYSTEM

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COMMENTS OF HIGHROAD CONSULTING. LTD.
REGARDING REVIEW OF THE SURFACE TRANSPORTATION BOARD'S GENERAL
COSTING SYSTEM

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I. INTRODUCTION

My name is Sandra Dearden. I am founding President of Highroad Consulting, Ltd. (Highroad), a full service transportation and logistics consulting firm located in the Chicago metropolitan area. Organized in 1996, Highroad consults on all areas of surface transportation. However, because of our rail experience some of our clients include 3PL's and other consulting firms that sub-contract rail projects to Highroad. Rail comprises more than 70% of our projects.

Highroad has developed some sophisticated analytical processes that we use on client projects that require measurement of railroad operating costs. A few examples of the types of projects where cost information is used, include benchmarking of rates and routes, assessment of the long term viability of a rail line, analysis of operating costs for an adverse abandonment case¹, and analysis required for assessment of proposed trackage rights charges².

Knowing that railroad marketing personnel do not use the URCS rail costing model for decision making, Highroad developed a copyrighted rail costing model, INSIGHT: RailEdition© (INSIGHT) that is based on the railroads' financial data filed in annual reports to the government agencies. We have worked extensively on projects that include costing of rail operations and I am qualified to address the proposed changes in this Supplemental Notice of Proposed Rulemaking (Supplemental NPR).

On August 2, 2016, the Surface Transportation Board (Board), through a Supplemental NPR, revised its proposal to eliminate the "make-whole adjustment" that

¹ STB Finance Docket No. AB-279 (Sub. No. 3), Canadian National Railway Company Adverse Discontinuance, Line of Montreal, Maine & Atlantic Railway Ltd. in Aroostook County, Maine.

² STB Finance Docket NO. 35063, Michigan Central Railway, LLC – Acquisition and Operation Exemption – Lines of Norfolk Southern.

is currently applied as part of the Board’s general purpose costing system, Uniform Rail Costing System (URCS). The Board is also proposing certain other related changes to URCS, including proposals for locomotive unit-miles (LUM) and train miles allocations that would result in more appropriate rail movement costs.

In previous filings presented in 2013, some commenters cautioned the Board against pursuing “piece-meal” changes to URCS, arguing the Board should consider more comprehensive changes to URCS. However, the Board believes improvements to the costing system should not be ignored, and this is a prudent course of action.³

We commend the Board for dedicating time and resources to perform the analysis behind the revised rules, and for focusing on continuous improvement. Our concern, however, is adoption of any revised rules will result in one more delay of facing the fact that URCS costs are not accurate, and they should not be the basis for decisions in STB proceedings. Therefore, any decision to make piece-meal changes to URCS should be judged merely as temporary improvements until the Board opens a comprehensive review of URCS.

II. THE IMPORTANCE OF ACCURATE COSTS CANNOT BE UNDERSTATED

It is generally accepted that URCS has fundamental flaws, The STB’s Shipper Transportation Advisory Council referred to URCS as “an outdated and inadequate costing system.”⁴ In the Transportation Research Board (TRB) report to Congress, TRB’s experts submit “URCS suffers from all of the methodological problems.... it is a cost allocation scheme that has no economic foundation, as amply illustrated by the “make-

³ Surface Transportation Board Docket Number EP 431 (Sub – No. 4), Decision, August 4, 2016, p. 3.

⁴

<http://www.stb.dot.gov/stb/docs/RSTAC/RSTAC%20URCS%20White%20Paper%20on%20URCS%20November%202022.pdf>.

whole” contrivance to redistribute unallocated costs.”⁵ Certainly, elimination of the make-whole adjustment will improve the model, but any piece-meal adjustment to the cost system will not result in a model that will meet the law’s requirement for economic accuracy.

It has been our experience that URCS costs are overstated. Some Highroad Consulting, Ltd. (Highroad) clients have contracted studies, requesting parallel costing, using URCS and Highroad’s rail costing model, INSIGHT: RailEdition© (INSIGHT), and in each and every case, URCS costs were significantly higher than costs calculated by the INSIGHT model; in some lanes URCS costs were 100% higher than INSIGHT costs.⁶ Yet, the STB has stated that even though URCS is imperfect, URCS is sufficient for regulatory purposes. (TRB Report, Fundamental Flaws of URCS.)

The use of overstated costs calculated by URCS is very serious as the regulators treat arbitrary results as valid. Some shippers are precluded from seeking rate relief because their rate(s) do not exceed the 180 percent regulatory threshold based on URCS costs, so by regulatory standards they cannot prove market dominance. Others that have filed rate complaints after confirming their rates exceed the 180 percent threshold, and some have even received favorable rulings, but the prescribed rates and prescribed reparations may still be unfair to shippers as those decisions are based on over-stated costs.

⁵ Transportation Research Board Special Report 318, Modernizing Freight Rail Regulation, copyright 2015, Fundamental Flaws of URCS, pp 110-111.

⁶ Information about INSIGHT: RailEdition© was submitted in former proceedings, including , STB Finance Docket NO. 35063, Michigan Central Railway, LLC – Acquisition and Operation Exemption – Lines of Norfolk Southern.

Based on the assumption that the Board will decide to modify URCS, we will add some comments for consideration relative to I & I Switching Mileage and to the definition of unit trains.

III. I & I SWITCHING MILEAGE

When reviewing the I & I Switching segment of the decision and comments submitted by interested parties one is challenged when trying to decide if a change is needed and, if so, what the I & I Switching Mileage should be to reflect contemporary rail operations.

In 1997, the Board acknowledged that the 200-mile figure was outdated, but they also determined “it was unable to propose an alternative figure without conducting a special study.” (Underscore for emphasis) However, in the NPR, the Board proposed to update the figure based solely on a high level analysis of the average length of haul for the Class I railroads in 1990 pre-mergers and in 2011 post-mergers. Because the Board observed a 60% increase in the overall length of haul, the Board proposed to increase the distance between I & I switches from 200 miles to 320 miles. Union Pacific Railroad (UP) supported an update but proposed 250 miles. Subsequently, in this Supplemental NPR the Board, based on an updated analysis, is proposing adoption of an average length of haul between I & I switches for carload traffic of 268 miles rather than 320 miles.⁷

The stated objective of the changes proposed in this decision is to improve the accuracy of the URCS model. Updating the I & I Switching Mileage figure without an in-depth study seems to be adverse to that objective. We already have a flawed cost model; changes should not be based on cursory analysis or guess work.

⁷ Surface Transportation Board Docket Number EP 431 (Sub – No. 4), Decision, August 4, 2016, Other Related Changes, pp. 10 – 11.

The question is, can the Board decide on a single number that would be appropriate for all railroads? For example, rail operations are totally different for the western carriers versus the eastern carriers, so it is possible that the I & I Switching Mileage should be regional or carrier specific. We submit a more in-depth analysis be performed before making a change to I & I Switching Mileage, otherwise, the risk is, an arbitrary and inappropriate change could do further damage to the URCS model.

IV. DEFINITION OF UNIT TRAINS

In the NPR, the Board proposed to increase the number of cars in a unit train movement from 50 or more cars to 80 or more cars. In this Supplemental NPR, the Board is proposing to reduce the number of cars in unit train movements to 75 cars. We do not disagree with that change as it is consistent with what I have experienced when managing commodities that move in unit train service. Instead, my comments here will focus on other issues that complicate matters when trying to develop a system to cost unit train operations.

It has been my experience that in addition to train size, the operating characteristics of unit trains vary and those characteristics impact on the operating costs. For example for some trains, the requirement is to return the empties as a unit, so the railroad(s) are required to dedicate engines and crews to return the empty cars. For other trains, the empties are returned in manifest train service, so dedicated train service is not required for the empties and the empty return ratios change. In some instances, when the railroads are required to provide special train service for return of the empty cars, the per car cost for the unit train move can even be higher versus a single car move.

There are other train/lane specific operating characteristics that impact on costs, but it would not be practical to attempt to address all of the potential *What If?* scenarios in a

general costing system. However, if the unit train costs in URCS are based on the assumption that the empties are returned as a unit for all trains, when in fact the empties return in manifest train service those costs will be overstated. Therefore, in order to be fair to shippers and to the railroads, we submit there should be two options when costing unit train moves: (1) Trains with empties that are returned to origin as a unit, and (2) Trains where empties are returned in manifest train service.

V. SUMMARY

We commend the Board for its initiative to improve the accuracy of the URCS model. However, we are concerned that adoption of any proposed revisions will result in the regulators taking comfort in the fact that the URCS model has been improved, creating further delay of what really needs to be done. Since the Board advised in their decision that the proposed changes will not place an undue burden on STB staff, we recommend any changes to URCS be considered only as a temporary improvement, and that the Board follow up with a decision regarding the next course of action needed to replace URCS or to conduct a comprehensive review of URCS with the objective to produce costs that are accurate and fair to all parties.

Also, if the final outcome of this Supplemental NPR is a decision to make piecemeal changes to URCS, we respectfully request the Board not to change the I & I Switching Mileage without a more in-depth analysis. Also, if the objective is to improve the accuracy of the costs, the definition of *Unit Trains* should include how the empties are returned to origin.

Respectfully, Submitted,



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