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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

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REVIEW OF THE GENERAL PURPOSE)	
COSTING SYSTEM)	Docket No. EP 431 (Sub-No. 4)
)	
)	

REPLY COMMENTS OF THE WESTERN COAL TRAFFIC LEAGUE

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analysis,³ are not neutral in application,⁴ and are unnecessary.⁵ In light of these shared concerns, WCTL recommends that the Board not adopt the proposals set forth in its in SNPR.

The SNPR did not address one of WCTL's primary points – the STB's URCS processes, as applied to unit train coal shipments, fail to reflect the true efficiencies of such movements⁶ and the URCS variable costs on western unit coal train shipments far exceed the actual variable costs of this service.⁷ WCTL urges the Board to reverse course and return to movement-specific variable cost when calculating variable costs for purposes of determining carrier market dominance and the jurisdictional threshold.

BACKGROUND

In the NPR, the Board proposed procedures to eliminate the current make-whole procedure used in URCS and to substitute new procedures that captured the efficiencies associated with unit coal train traffic. WCTL observed that the Board's new

³ See, e.g., AAR Comments (filed Oct. 11, 2016) at 5-7; UP Comments (filed Oct. 11, 2016) at 3-4; Chemical Shippers Comments (filed Oct. 11, 2016) at 3-4 (other page references to Chemical Shippers Comments refer to the Expert Report of Robert D. Mulholland).

⁴ See, e.g., UP Comments (filed Oct. 11, 2016) at 6-7 (arguing that there would be a “mixing of methodologies” and distortions).

⁵ See, e.g., AAR Comments (filed Oct. 11, 2016) at 11-16; UP Comments (filed Oct. 11, 2016) at 3-4; Chemical Shippers Comments (filed Oct. 11, 2016) at 9-17.

⁶ See also Highroad Comments (filed Oct. 11, 2016) at 6-7 (discussing “issues that complicate matters when developing a system to cost unit train operations.”).

⁷ See WCTL Comments (filed Oct. 11, 2016) at 2.

proposals were not supported by any empirical studies, but, from a theoretical perspective, appeared in most (but not all) instances to produce results that better captured the efficiencies of high volume unit coal train traffic.⁸

WCTL also urged the Board to revisit its decision not to permit coal shippers to make movement-specific adjustments when calculating variable costs used to make market dominance determinations in rate cases. WCTL noted that the Board's current URCS procedures, as well as the changed procedures set forth in the NPR, only captured a small fraction of the cost efficiencies inherent in the unit train transportation of western coal.⁹

In the SNPR, the Board once again proposed to eliminate the make-whole adjustment, but using a different approach. This different approach, however, does not include permitting coal shippers to make movement-specific adjustments to URCS costs when calculating variable costs used to determine carrier market dominance in maximum rate cases.

In its Comments responding to the Board's SNPR, WCTL pointed out that the Board's SNPR proposals also were not supported by any empirical studies and were a major step backward because they would result in increases in unit coal train shippers'

⁸ WCTL Comments (filed Oct. 11, 2016) at 8-9.

⁹ *Id.* at 8 n.6.

variable costs when compared to the Board's current URCS procedures.¹⁰ WCTL urged the Board not to adopt the SNPR proposals for these reasons.

The other major commenters responding to the SNPR – the AAR, the Chemical Shippers, and UP – agree with WCTL that the Board's SNPR proposals are flawed and should not be adopted. Given this unanimity, the Board should not adopt the proposals set forth in the SNPR.

REPLY COMMENTS

In its Comments, WCTL urged the Board to consider proposals that would more accurately reflect the efficiencies and costs of western unit train coal service, but WCTL noted that the Board's SNPR did not further this objective.¹¹ WCTL's concerns were plainly echoed by other commenters.¹² WCTL addresses each of the SNPR's proposals below.

1. The Proposed Replacement for the Make-Whole Adjustment Causes Distortions

In its Comments, WCTL noted that there is nothing inherently wrong with trying to reform URCS to eliminate the make-whole adjustment and related step functions associated with efficiencies that inure to unit train and multiple car shipments, but WCTL urged the Board to reject changes that do not properly recognize the

¹⁰ *Id.*

¹¹ WCTL Comments (filed Oct. 11, 2016) at 7.

¹² *See, e.g.*, Chemical Shippers Comments (filed Oct. 11, 2016) at 19.

efficiencies of unit trains.¹³ In turn, WCTL consistently commented that the Board's SNPR did not, in fact, properly recognize unit train efficiencies. Indeed, WCTL noted that the "Board's SNPR substitutes, in certain areas, the unit train efficiency step-functions identified through empirical analysis in prior regulatory proceedings with asymptotic curves that have never been empirically tested by the Board," nor had the "Board shown that the step functions derived from the Board's earlier studies are actually flawed."¹⁴

WCTL also raised concerns about muddling Phase II and Phase III processes to accommodate the elimination of the make-whole adjustment.¹⁵ WCTL also noted that the Board failed to provide a working version of its URCS Phase III program, and attendant 2013 URCS Phase III data input file, with the modifications proposed in the SNPR, for review and testing of results.¹⁶ A flaw the Board has still not corrected.

The net result, in WCTL's estimation, was that the Board's proposals would probably "produce higher variable costs on western coal traffic, even though the current URCS procedures already grossly understate unit train cost efficiencies. So while the proposed cost curves developed by the Board appear smoother than the existing step functions, the result is increased distortion and reduced accuracy when determining

¹³ WCTL Comments (filed Oct. 11, 2016) at 7.

¹⁴ *Id.* at 9.

¹⁵ *Id.* at 9-10.

¹⁶ *Id.* at 10 n.7.

variable costs for unit train coal movements.”¹⁷ WCTL’s view has not changed on Reply.

Other commenters raised concerns similar to WCTL’s. Chemical Shippers, for example, noted that in “practice, there are no longer three shipment types in URCS under the Board's model. Although there is a nominal break between UT and carload (SC and MC) traffic, the nature of the Board's algorithm results in that being a distinction without a difference.”¹⁸ The AAR noted that it “does not object to eliminating the step-function effect of the make-whole adjustment, but cannot support changes to URCS that change cost relationships without empirical support.”¹⁹ UP noted that the make-whole adjustment “proposals in the SNPRM contain features that are as troubling, if not more troubling, than the current URCS model.”²⁰ Given the unanimity of the stakeholders, the Board should not adopt its proposed changes to the make-whole adjustment in URCS.

2. The Board’s Proposal to Calculate SEM Costs Using the CWB Adjustment (Asymptotic Curve) Also Causes Distortion

In its Comments, WCTL explained that the Board’s proposal to use the CWB adjustment (asymptotic curve) is a step backward for unit train shipments, particularly with respect to Industry Switching. Specifically, WCTL noted that the change in distance between I&I switches shifts certain switching costs from I&I

¹⁷ *Id.* at 10.

¹⁸ Chemical Shippers Comments (filed Oct. 11, 2016) at 17-18.

¹⁹ AAR Comments (filed Oct. 11, 2016) at 4.

²⁰ UP Comments (filed Oct. 11, 2016) at 3.

switching and places some of those costs in Industry Switching during the Phase II analysis, which end up increasing costs for unit trains in Phase III.²¹ WCTL, therefore, recommended that the Board return to its NPR proposal whereby SEM costs are calculated on a per-shipment basis.²²

WCTL also took exception to the “Board’s blind acceptance” of a proposal by the AAR and BNSF to make a time and event adjustment to SEM costs without any empirical analysis – the Board’s proposal does not exactly match the railroads’ proposal.²³ However, the time and event adjustment is implicit in the CWB methodology.

WCTL objections were echoed by the Chemical Shippers who noted that “[a]lthough it is somewhat stylish in design, the Board’s [CWB] model produces questionable results.”²⁴ The AAR expressed concerns that the Board’s use of the CWB “produces significant shifts in variable costs among shipment size for all switching types.”²⁵ Once again, the Board’s approach finds little or no support among interested stakeholders and should not be adopted.

The Chemical Shippers have proposed an alternative to the Board’s proposal. This proposal uses a logarithmic formula to determine various switching costs

²¹ WCTL Comments (filed Oct. 11, 2016) at 10-12.

²² *Id.* at 12.

²³ *Id.*

²⁴ Chemical Shippers Comments (filed Oct. 11, 2016) at 12.

²⁵ AAR Comments (filed Oct. 11, 2016) at 12.

and single and multi-car movements.²⁶ Chemical Shippers proposal does not impact unit train shipments switching efficiencies,²⁷ and WCTL, therefore, takes no position on Chemical Shippers proposal, but WCTL does note that at least on its face, Chemical Shippers methodology appears to more closely retain existing cost relationships for single and multi-car movements.

3. The Proposal for Calculating Equipment Costs for the Use of Railroad-Owned Cars During Switching Reduces Accuracy

In its Comments, WCTL opposed the Board's proposal to limit the make-whole allocation of car costs from one shipment type to another if the car types are not the same.²⁸ WCTL further explained that the Board's proposal is fundamentally flawed because: (i) the current efficiency reduction for use of railroad-owned cars during switching was supported by empirical analyses; (ii) the Board's proposed new procedure, which is not supported by any empirical analyses, will substantially, illogically and arbitrarily increase URCS unit costs for most unit train coal switching involving railroad-supplied cars;²⁹ and (iii) the new procedure finds absolutely no theoretical support since

²⁶ Chemical Shippers Comments (filed Oct. 11, 2016) at 37-38, 50.

²⁷ *Id.*

²⁸ *See* SNPR at 15.

²⁹ *See* WCTL Comments (filed Oct. 11, 2016) at 13. Essentially, for unit train shipments moving in railroad-owned equipment types that are used predominantly – but not entirely – in unit train service, the total costs (numerator) would remain constant for that car type while the units would be reduced based on the false assumption that that car type was used exclusively in unit train service, which would understate the units (denominator) and thereby increase the unit cost by definition. Since the Phase III efficiency adjustment would no longer apply, the cost for unit trains using such cars would automatically increase for no valid reason. Thus, the efficiencies that should

it assumes that URCS should assign significant increased switching costs to western coal unit movements that – in fact – rarely involve any switching service at all. WCTL urged the Board to drop the modification from any final rule, or at least conduct an empirical study before adopting any such change.³⁰

Even though the AAR initially proposed fixing the alleged problem of efficiency adjustments being made between car types, the AAR also finds fault with the Board's proposal. Specifically, the AAR notes that the proposal "creates an avoidable mismatch between the Phase II inputs and its allocation of SEMs by shipment size," and, as a result, "car types that move predominately in unit trains would have relatively more costs assigned to line haul operations, resulting in larger cost increases for longer movements," for which the "SNPRM has no empirical support."³¹ The AAR also noted that the proposal "does not maintain the current cost relationships within URCS that resulted from the special studies."³²

As WCTL and the AAR agree that the Board's proposal is flawed, the Board should not adopt its proposed rule. As for the AAR's so-called fix to the Board's SNPR proposal, using the CWB adjustment or alternatively the unit cost from the average car day or average car miles applied to the specific car day or car miles, this too should

reduce the overall costs (as occurs in Phase III now) cause the unit train costs to go up, which result is plainly illogical.

³⁰ *Id.* at 13-14.

³¹ AAR Comments (filed Oct. 11, 2016) at 17.

³² *Id.*

be rejected. As WCTL has already explained, there is no record evidence to support such granularity of car costs by car type for railroad-owned cars proposed by the AAR, and that the Board would need to conduct an empirical examination of the differences in costs in any case before making such a change to URCS³³ – especially one that illogically prejudices unit train shipments.

4. The Proposal to Calculate Station Clerical Costs for Certain Single Car Shipments Using the CWB Adjustment Reduces Accuracy

In its Comments, WCTL urged the Board to restore its NPR proposal to calculate station clerical costs based on a per-shipment basis recognizing that a per-shipment basis “properly reflect[s] actual railroad operations or economies of scale” and the fact that “there is little difference in the administrative costs between shipments of different sizes.”³⁴ The Board dropped this approach to focus on the allocation of station clerical costs for single car movements. The AAR and Chemical Shippers have weighed in on this issue.³⁵ WCTL takes no position on the Board’s SNPR approach for single car movements as unit trains are not affected. However, WCTL again urges the Board to drop its SNPR approach in favor of calculating station clerical costs on per shipment basis.

³³ See WCTL Comments (filed Oct. 11, 2016) at 13.

³⁴ NPR at 7.

³⁵ Chemical Shippers Comments (filed Oct. 11, 2016) at 8; AAR Comments (filed Oct. 11, 2016) at 14-15.

5. The Board’s Proposal to Calculate E/L Ratios for Unit Train Moves by Car Type Increases Distortion

In its Comments, WCTL opposed the Board’s proposal to use the empty loaded return ratio (“E/L Ratio”) by car type rather than the 2.0 figure currently used in URCS Phase III for unit train shipments. As WCTL explained, in “western coal unit train coal service, the E/L Ratio is likely to be 2.0 regardless of car type. More importantly, E/L Ratio in a western coal unit train move will not vary from year-to-year and certainly will not change based on the E/L Ratio for that carrier’s car type generally.”³⁶

WCTL reiterates that if “the Board truly wishes to specify the E/L Ratio for unit trains by car type, it should create a new shipment entry type in Phase III and related reports submitted by the railroads for large dedicated unit train movements.”³⁷

Otherwise, the Board should not adopt any further modifications to the E/L Ratio.

The AAR does not oppose the Board’s proposal, but it does not make any case for it.³⁸ WCTL’s points are axiomatic with respect to western unit coal train service, and the Board ought not to make any adjustment to unit train E/L Ratios in Phase III.

6. The Board’s Proposal to Increase the Distance Between I&I Switches May Also Increase Distortion

In its Comments, WCTL agreed that Phase III correctly excludes I&I switching costs for unit train moves.³⁹ WCTL noted, however, that the Board’s proposal

³⁶ WCTL Comments (filed Oct. 11, 2016) at 15.

³⁷ *Id.* at 15-16.

³⁸ AAR Comments (filed Oct. 11, 2016) at 15.

to assume the distance between I&I switches is 268 miles rather than the current 200 miles had the “net effect of transferring certain switching costs that previously were accounted for in the I&I category . . . to the industry switching category of costs” thereby increasing costs for unit train shipments without any justification.⁴⁰

WCTL’s concerns were echoed by the Chemical Shippers whose expert noted that the link between overall shipment miles and I&I switching intervals has not been established thereby calling into question the validity of the Board’s restated I&I switching mileage interval, which drives the increased unit costs for industry switching.⁴¹ The AAR pointed out that the “redistribution” of such switching costs was “arbitrary.”⁴² Simply put, there is no basis for the redistribution of any such costs to unit trains and the Board should retain the existing relationship or ensure that such redistribution does not impact unit train shippers that do not incur I&I costs in any case.

7. The Board’s Proposal to Change the Definition of Unit Train Lacks Empirical Support

WCTL stated no specific objection to redefining the definition of unit train shipment for URCS costing purposes from 50 or more cars to 75 or more cars.⁴³ WCTL

³⁹ WCTL Comments (filed Oct. 11, 2016) at 16.

⁴⁰ *Id.*

⁴¹ Chemical Shippers Comments (filed Oct. 11, 2016) at 27.

⁴² AAR Comments (filed Oct. 11, 2016) at 15.

⁴³ WCTL Comments (filed Oct. 11, 2016) at 16.

did note, however, that the analysis was not based on any updated empirical evidence, except a simplistic review of R-1 and waybill data.⁴⁴

The Chemical Shippers also expressed concerns over the Board's redefinition of unit train. Specifically, Chemical Shippers pointed out multiple flaws in the Board's analysis.⁴⁵ For example, Chemical Shippers noted, with respect to the Board's shipment distribution analysis, that the "fact that there are significantly more 75-car shipments than 74-car shipments has no bearing on how the 74-car shipments were moved by the railroads."⁴⁶

8. The Board Should Restore its NPR Proposal to Adjust LUM Cost Allocations for Unit Trains on a Shipment Basis

In its Comments WCTL urged the Board to restore its NPR proposal and allocate LUM costs for unit trains on a shipment basis because a unit train "shipment has no other shipments that should share the LUM costs of that train."⁴⁷ No other parties addressed WCTL's concern, and thus WCTL reiterates the need to make LUM cost allocations for unit trains on a shipment basis.

As for the Board's current proposal to eliminate the negative step function for LUM costs between multi-car and unit train shipments by limiting the "LUMs

⁴⁴ *Id.* at 15-16.

⁴⁵ Chemical Shippers Comments (filed Oct. 11, 2016) at 19-25.

⁴⁶ *Id.* at 23.

⁴⁷ SNPR at 27; WCTL Comments (filed Oct. 11, 2016) at 17.

allocated to multi-car shipments to be less than or equal to those allocated to a 75-car shipment.”⁴⁸ WCTL continues to have no objection to such a cap.

9. WCTL Takes No Position on the Board’s Proposal to Adjust Train Mile Cost Allocations

WCTL continues to take no position on the Board’s proposal.

CONCLUSION

WCTL requests that the Board take actions in this proceeding in a manner consistent with the Reply Comments set forth above.

Respectfully submitted,

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⁴⁸ SNPR at 27; WCTL Comments (filed Oct. 11, 2016) at 18.