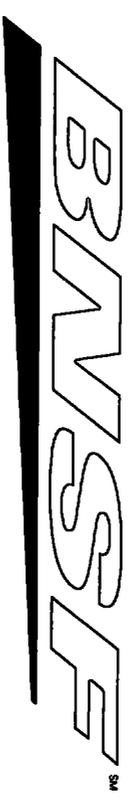


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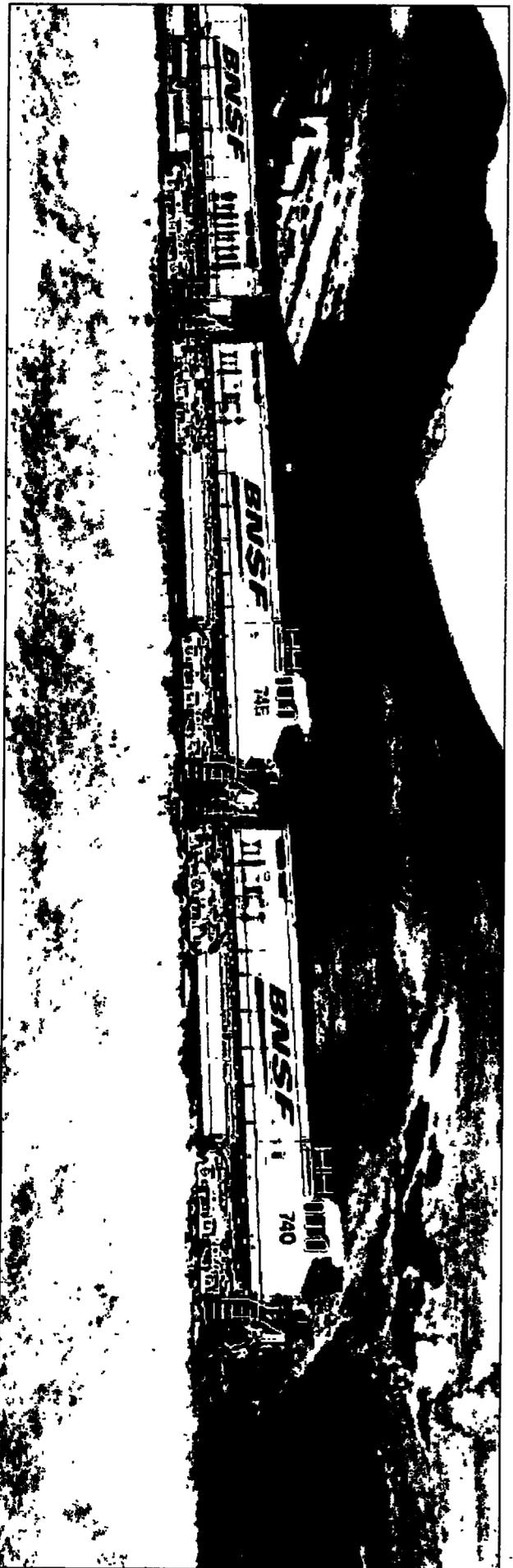
# BNSF Railway Company

## Ex Parte No. 431 (Sub-No.3) Review of the STB's General Purpose Costing System



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Office of Proceedings  
MAY 1 - 2009  
Part of  
Public Record

April 30, 2009



# Importance of Accurate URCS Costing

- Congress underscored the importance of variable costs by establishing a threshold R/VC ratio to determine whether the STB has jurisdiction over specific rates.
- In recent years, URCS variable costs have become an increasingly important element in the Board's rate reasonableness proceedings.

# **Importance of Accurate URCS Costing**

- **With the increasing reliance on URCS, it is important that URCS cost assumptions are accurate and up to date.**
- **Current inputs into URCS are derived from aging studies, some more than 50 years old.**
- **The last review of URCS was initiated in 1990 and only focused on a handful of issues.**
- **It would be appropriate and timely for the Board to initiate a new review process now.**

# Procedural Considerations

- The Board should carefully consider how a new URCS review process should be conducted.
- It is important that the Board not underestimate the cost and complexity of a meaningful URCS review.
- In the previous URCS review, the ICC found it necessary at certain points to extend the comment and analysis period and, ultimately, to narrow the original scope of the review.

# Procedural Considerations

- **The Board should be realistic in establishing the scope of a new review of URCS.**
- **In considering the specific issues to review, the Board should:**
  - **establish priorities;**
  - **establish realistic schedules for comments; and**
  - **consider a phased approach.**

# Use of ANPR to Develop a Work Plan

- The Board should elicit feedback about the process from interested parties.
- One possible approach would be the development of work plan through an Advance Notice of Proposed Rulemaking (“ANPR”).
- ANPR should describe the basic process that the Board proposes for reviewing the issue, as well as the data needs and proposed data sources.

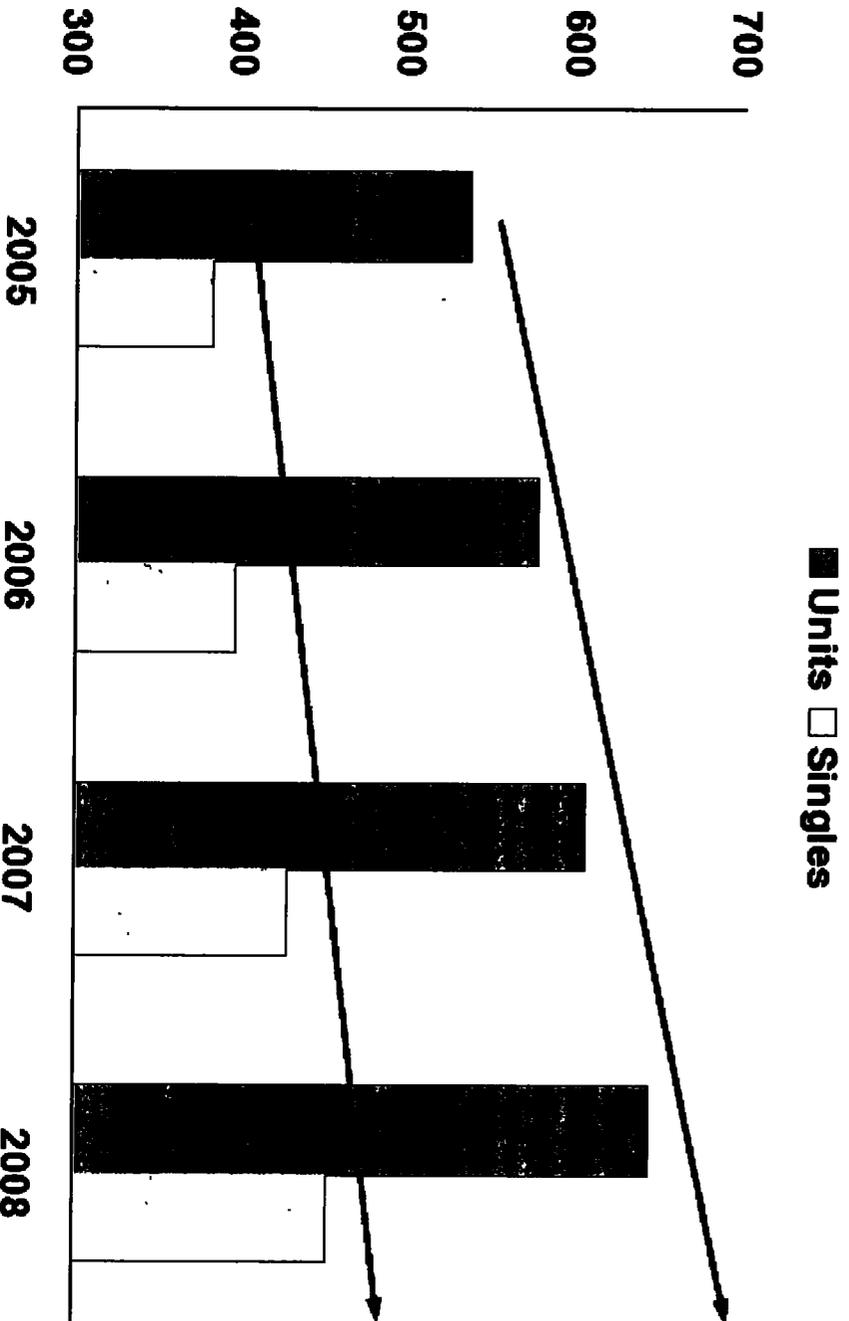
# **Major Issues to Be Addressed In an URCS Review**

- **BNSF has identified several issues that should be given priority in any STB review of the URCS system:**
  - **The accuracy of the URCS allocations developed from outdated special studies --**
    - **Inputs are derived from outdated studies.**
    - **Railroad industry has changed considerably since studies were performed.**
    - **Focus on allocation of costs to single car, multicar and unit train shipments.**

# Growth in Unit Trains

## Grain and Grain Products

Units (000's)



# **Major Issues to Be Addressed In an URCS Review**

- **The accuracy of the variability assumptions and formulas historically embedded in URCS --**
- **Considerable changes in operating conditions have occurred (e.g., increased mainline density).**
- **An increasing percentage of certain costs are more appropriately treated as “variable.”**



# **Major Issues to Be Addressed In an URCS Review**

- **The proper costing of intermodal traffic --**
  - **Intermodal traffic is operationally unique.**
  - **Intermodal represents an increasing portion of BNSF's business.**
  - **Increasing intermodal volumes means increasing impact on rail costing structure.**
  - **The Board should consider exploring whether more accurate costing measures can be implemented.**

# **Major Issues to Be Addressed In an URCS Review**

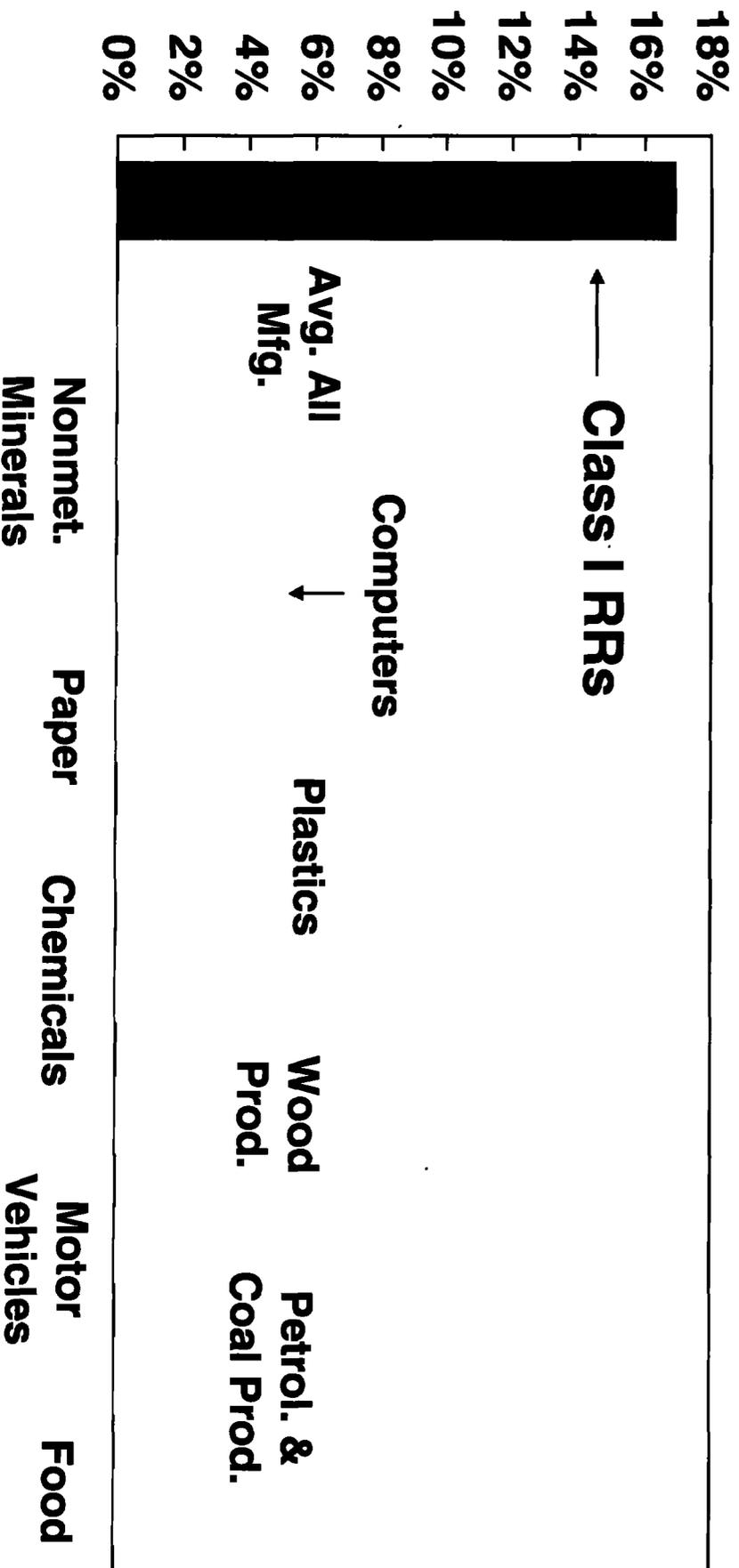
- **BNSF encourages the STB to consider these additional areas of focus for an URCS review:**
  - **The consistency and accuracy of treatment of revenue deductions and third-party payments.**
  - **Board should consider adjustments that accurately represent those third party costs for affected moves.**

# **Major Issues to Be Addressed In an URCS Review**

- **The value of normalization and current costs.**
- **URCS currently utilizes normalization periods for certain cost categories.**
- **The Board should consider whether a shorter normalization period would result in more accuracy.**
- **The Board should also utilize replacement costs rather than book value in calculating the ROI component of URCS.**

# Railroading Is Capital Intensive

Capital Expenditures as a % of Revenue: Avg. 1997-2006



Sources: U.S. Census Bureau, AAR



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