Railroad Regulation Since The Staggers Rail Act of 1980

Francis P. Mulvey
Vice Chairman
Surface Transportation Board

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The Deregulation Movement

- Air Cargo Deregulation Act of 1977
- Airline Deregulation Act of 1978
- Motor Carrier Act of 1980
- Staggers Rail Act of 1980
- Bus Regulatory Reform Act of 1982
- Interstate Commerce Commission Termination Act of 1995
RR Industry Pre-Staggers

- 40 Class I Railroads
- 9 Railroads bankrupt
- Industry-wide low return-on-investment
- Railroads unable to raise capital
- Railroads faced steadily declining market share
- Regulation prevented RRs from any flexibility in pricing to compete with other modes
- Carriers could not abandon redundant or light density lines to cut costs
- Rates could not cover inflation due to regulatory lag in rate adjustments
Staggers Rail Act of 1980

- Railroads given freedom to set rail rates based on demand
- Streamlined procedures for the abandonment and sale of rail lines
- Encouraged Railroad-Shipper contracts
- Expanded ICC power to exempt categories of traffic
- Rates evaluated by ICC under a reasonableness test
Rail line Rationalization Since Staggers
Class I Rail Miles 1830 - 2006
RR Capital Expenditures
1955-2006
(Amounts shown in Thousands)
Since Staggers

- Rail industry market share has increased from 37.5% to 41.7%
- Rail rates down 55% on average (inflation adjusted)
- Railroads’ ROI increased
- Railroads substantially increased investment in infrastructure
- Improvement in safety performance
The Railroad Industry Today

- 7 Class I Railroads
- 525 Class II and Class II railroads
- Much reduced system through rationalization
- Average length of haul – 900 miles
The Surface Transportation Board Today

• Created by ICC Termination Act of 1995
• Three Board Members
• Residual economic regulation of the railroads
• Reduced scope of regulatory activity—many rail movements deemed competitive
• Smaller staff
STB Mission

- Exclusive review and approval of rail mergers
- Review rail rates and practices to ensure they are reasonable and not discriminatory
- Approval, including environmental review, of (i) construction of any new rail line or (ii) abandonment of existing lines
- Rates for water carriers in non-contiguous domestic trade
- Rates for pipelines not carrying energy products
STB Merger Authority

• Mergers in the post-Staggers Era

• STB merger policy in 1990’s

• Merger moratorium

• Categories of merger transactions (major, significant and minor)

• Mergers and downstream impacts

• STB merger policy today
STB Responsibilities over Rates and Service

• Oversee and monitor rail practices nationally
• Enforce common carrier obligation
• Ensure rail practices are reasonable
• Ensure that rates charged captive customers are reasonable
• Policies should allow railroads to earn adequate revenues
• Determine the railroads’ cost of capital and whether they are revenue adequate
Environmental Review

• Approval of new construction
  – DM&E
  – Yucca Mountain
• Abandonment cases (OFAs)
• Rails to Trails
• Rail transload facilities
Other STB Powers

- Amtrak - Direct Service Orders
- Emergency service orders
- Operating issues (e.g. car supply, unreasonable practices)
- Industry specific meetings
- Ongoing monitoring
  - Issues of national significance
  - Certain local disputes needing STB attention
Current Issues

- Railroads’ Common Carrier Obligation
- Large vs. Small rate case handling
- Rail Fuel Surcharges
- Paper Barriers
- Rail Cost of Capital
- Investment in Rail Industry
Thank you. Questions?