An Introduction to the Surface Transportation Board

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Railroads & the U.S. Economy

- First railroad: B&O in 1829
- Rail network grew rapidly after Civil War.
- Abuses by railroads and anti-monopoly sentiment led to demand for regulation.
Development of Transportation Regulation

• The Granger Laws
• The Interstate Commerce Act 1887
  – Early Problems with the Act
  – Congressional Responses
• Strengthening & Expanding Transportation Regulation
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
Class I Rail Miles 1830 - 2006
Railroad ROI
1970 - 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 - Directed 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
  – July 16: Transport of Hazmats
• Large vs. Small rate case handling
• Rail Fuel Surcharges
• Paper Barriers
• Rail Cost of Capital
• Investment in Rail Industry
• Competition Study
• Rail Customer & Public Assistance Program
Thank you. Questions?