



Railroad Capital Expenditures and Regulatory Issues

National Railroad Construction and
Maintenance Association

Commissioner Francis P. Mulvey

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Ft. Lauderdale, FL



STB Basics

- Independent economic regulatory agency for the railroad industry
- Handles
 - Railroad rate and service disputes
 - Railroad mergers and acquisitions
 - Rail line abandonments and construction
 - Freight/passenger rail relationships
 - Limited jurisdiction over other modes



Board Members

- 3 Board members – Democrat & Republican
- Nominated by President, confirmed by Senate for 5-year terms
- Ann Begeman nominated by President Obama December 20, 2010
- Begeman to replace Republican member Charles Nottingham



STB STAFF

- Highly educated professional staff - lawyers, economists, financial analysts, environmental and railroad operational specialists
- Named #1 small agency - annual federal employee survey for past 2 years
- “One of the most obscure corners of the federal government train geeks and experts” *Washington Post*



Issues that can impact railroad-related industries

- Freight traffic trends
- Congressional changes to laws governing railroad industry
- STB economic regulatory issues
- Shipper/Railroad relationships

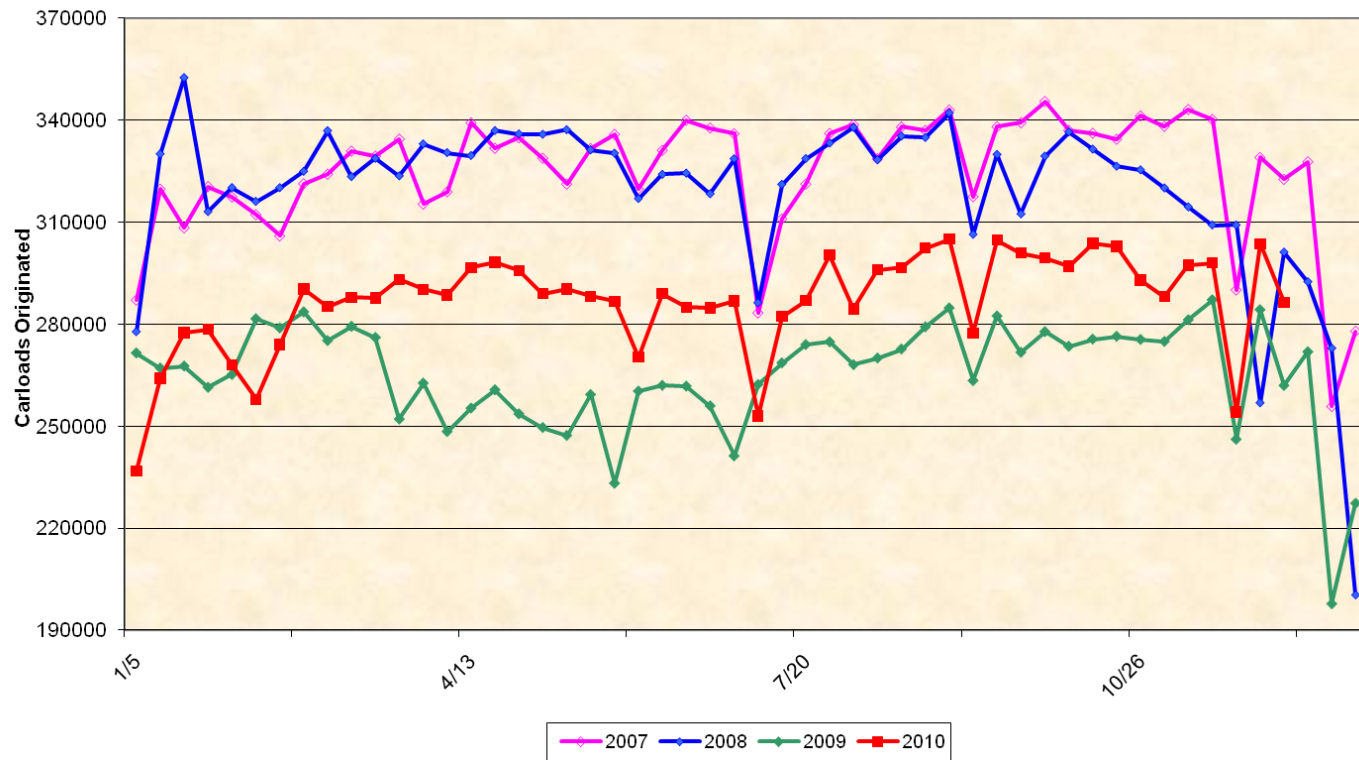


Rail Industry Trends

- Data point to a significant upswing in rail traffic in the last year
 - 11 months of traffic gains
 - Nearly all commodities (e.g., grain, coal, chemical) up from the same period 1 year ago
 - Intermodal traffic at record high, 13.8% increase over last year
 - Carload traffic up 6.8% compared to one year ago
 - Total traffic volumes expected to continue to trend upward
 - Exception: Automobile traffic, construction materials, forest products

Freight Rail Traffic Trends

Total Traffic
U.S. Class I Railroads 2007- Present





Car Supply/Equipment

- Fewer cars in storage – 21% of the U.S. car fleet idle, compared with 28.8% one year ago
- Carriers bringing more cars and equipment on line
- Grain car shortage not as acute as predicted
- Locomotive/equipment orders up



Large Rail Projects

- Capital projects continued during recession
- UP - Joliet Yard
- CSXT - National Gateway
- NS - Heartland & Crescent Corridors
- BNSF - Transcon double tracking
- CREATE – 11 projects completed, 7 under construction



Changes in Congressional Agenda

- STB Reauthorization bill – Senate bill dominated the legislative debate in 2009/2010
- Senate Commerce Committee Chairman Rockefeller still committed to bill
- Senate Judiciary Chairman Kohl wants to end railroad antitrust exemptions



Changes in Congressional Agenda (2011)

- Republican controlled House
- Former House Transportation & Infrastructure Chairman Oberstar defeated
- New T&I Chairman John Mica of Florida
 - Multi-year transportation spending bill
 - Aviation bill
 - Transportation infrastructure repair
 - Review DOT high speed rail grants, RRIF loans
- New Railroad Subcommittee Chairman Bill Shuster of Pennsylvania



STB Regulation

- Changes to or uncertainty in regulatory environment can impact capital spending
- Railroad industry much less regulated than before Staggers Act of 1980
- Market forces drive industry today with regulation largely setting the framework



STB Capital Related Activities

- Cost of Capital
 - Annual determination by Board
 - Indicates the return investors expect from investments in the railroad industry
 - Used in rate cases, abandonments, and revenue adequacy determination
 - 2009 cost of capital – 10.43%
 - Board recently changed how it calculates cost of capital



STB Capital Related Activities

- Revenue Adequacy
 - Annual determination by Board
 - Indicates whether largest carriers are achieving a rate of return equal or greater to the cost of capital
 - NS found revenue adequate for several years past
 - No carrier found revenue adequate in 2009
 - Findings of revenue adequacy over time could impact how the Board regulates



Major STB Matters Pending

- Large rate cases
 - AEPCO v. BNSF/UP
 - Total Petrochemicals v. CSXT
 - M&G Polymers v. CSXT
 - Intermountain Power v. UP
 - South Mississippi Electric v. NS
- Tariff issues - coal dust, fuel surcharges, tank car routing
- Treatment of PTC implementation costs
- Paper Barriers



Announced STB Initiatives

- Re-examination of competitive access
- Review of current class exemptions
- Update to Uniform Railroad Costing System
- Increased Transparency
 - Decision digests
 - Oral arguments/hearings
- More active monitoring of industry
 - Increased audits
 - Reporting



Future of STB

- Fate of reauthorization legislation
- Funding level for agency
- Increased rail traffic
- Opportunities for Board to address important railroad/shipper issues
- Stay tuned . . .



Thank you
Any Questions?

