Southwest Association of Rail Shippers
Hyatt Regency Hotel
San Antonio, Texas
February 24, 2005
Surface Transportation Board
Chairman, Roger Nober
Overview of the STB
STB Mission

• Exclusive review and approval of rail mergers
• Review of 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
• Motor carrier collective activities
• Rates for non-contiguous domestic trade
• Rates for pipelines not carrying water, gas or oil
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
• Assist railroads to earn adequate revenues
STB --
2004 in Review
2005 in Preview
2004 in Review – Overall

• Board at full strength with confirmation of two new Members
• Agency has worked off a significant backlog in the past six months
• Held 17 Public meetings on significant issues:
  • Six Voting Conferences
  • Seven Oral Arguments
  • Four Hearings
2004 in Review –
Maximum Rate Cases

• Board decided three maximum coal rate cases
• Board decided five petitions for reconsideration of already-decided maximum rate case decisions
• Held oral arguments in two rate cases
• Only one new coal maximum rate case filed
• Conducted site visit to Powder River Basin
STB – 2005 Priorities

• Progress on small rate cases and further progress on streamlining large rate cases
  – Large rate case hearing scheduled for March 24
• Improved customer service from carriers
• Examination of capacity constraints
• Focus on 25th Anniversary of Staggers Act
Freight Rail Service Issues
2004 in Review – Service Issues

• Board carefully monitored rail trends and performance
• Urged open communication between railroads and shippers
  – San Francisco, Atlanta, Kansas City and Houston Service forums
  – Worked to resolve many smaller service complaints
• Asked railroads to submit their fall peak plans
• Worked with railroads and shippers on service issues
2005 Service Issues

- Specific carrier service failures
- Grain and agriculture production
- Carriers’ improved financial positions will increase pressure on rates and service
- Continued pricing pressure on shippers
- Will robust demand for freight transportation continue?
Insufficient Capacity – A New Kind of Regulatory Problem

- Current and future service issues may be demand and capacity driven
- Agency’s regulatory powers intended for different type situation
- Most commodities are deregulated by virtue of being modally-competitive or shipped by contract
- Interstate Commerce Act laws and doctrine look at reasonableness of regulated traffic
- Customers want fairness for all movements
Service Actions

• STB is often asked to take action to improve service for individual shipper.
• It should do so only if:
  – Situation warrants action
  – Action can be productive
• Cannot make one shipper better off at the expense of another.
Long-Term
Freight Railroad Service Metrics
Quarterly Average Total Cars-On-Line
From Third Quarter 1999 (3Q99) to Second Quarter 2004 (2Q04)
Quarterly Average Train Speeds
From Third Quarter 1999 (3Q99) to Second Quarter 2004 (2Q04)
Quarterly Average Terminal Dwell
From Third Quarter 1999 (3Q99) to Second Quarter 2004 (2Q04)
Traffic Volume
U.S. Class I Railroads
January 2000-December 2004
Source: AAR Weekly Traffic
Long-Term Freight Railroad Issues
Capacity Constraints –
Short-term Causes

- Increased rail demand and tightness in rail capacity
  - Expanding economy increased imports
  - Large grain harvests in 2003 and 2004
  - Shortness of crew and equipment
  - Insufficient capital expenditures
- Trucking capacity is also tight
  - Increased fuel prices
  - Driver shortages
  - High insurance costs
  - Uncertain hours of service rules
Capacity Constraints –
Long-term Causes

• Future demand for freight movement predicted to increase
• Challenge for private companies to meet that demand
• Constraints on capital investment
  ✓ Railroads inability to achieve revenue adequacy
  ✓ Demands of investors
  ✓ Under capacity and over capacity at the same time
• Demands of changing freight flows
• Returns will have to justify further investment
Railroad Revenue Adequacy

- Computed by comparing the railroad industry’s cost of capital to individual railroads’ rates of return on investment (ROI).
- ROI computed by dividing net railway operating income by the investment in road and equipment.
- If ROI equals or exceeds industry cost of capital for a period of time, the railroad is then determined to be revenue adequate.
# Railroad Cost of Capital and ROI

Sources: Annual R-1 Reports and AAR

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Railroads and Communities

- Major carriers have rationalized their systems, so they now have more traffic on fewer lines.
- Communities now see a greater frequency of rail service on lines, and communities are struggling to co-exist with railroads.
- Communities are looking to partner with private carriers, states, and federal government to invest capital to increase rail fluidity, mobility for their citizens and livability.
- Will happen more and more, further straining carrier capital investment.
STB Resources for shippers
Board Activities for Shippers

- Careful monitoring of carrier performance
- Call carriers with problems
- Working with carriers on supply chain
- Board’s Rail Consumer Assistance Program
Rail Consumer Assistance Program

- Facilitates informal solutions to disputes with RR’s
- Brings issues to RR’s attention rapidly
- Solves Problems without Litigation
- Promotes Rail Service Improvements
- 120 Rail Consumer complaints handled in 2004;
  over 420 handled since program began in 2000
Rail Consumer Assistance Program: Common Inquiries

- Abandonment/Loss of Service
- Blocked Crossings
- Car Supply
- Competition Issues
- Community Issues
- Claims for Damages

- Demurrage
- Idling Engines/Parked Trains
- Inter-carrier disputes
- Labor issues
- Rates & Other Charges
- And many more..
Rail Consumer Assistance Program
Contacts

Three ways to get help:
– Telephone call – Toll Free (866) 254-1792
– Written statement of problem
  • Email railconsumer@stb.dot.gov
  • Fax (202) 565-9011
– Web Form at
  http://www.stb.dot.gov/railconsumer.nsf/feedback?OpenForm