



Journal of Commerce

Trans-Pacific Maritime Conference

Long Beach Convention Center

Long Beach, California

February 28, 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



2004 in Review

- 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



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



Intermodal Rail Traffic Service Issues



Regulation of Intermodal Traffic

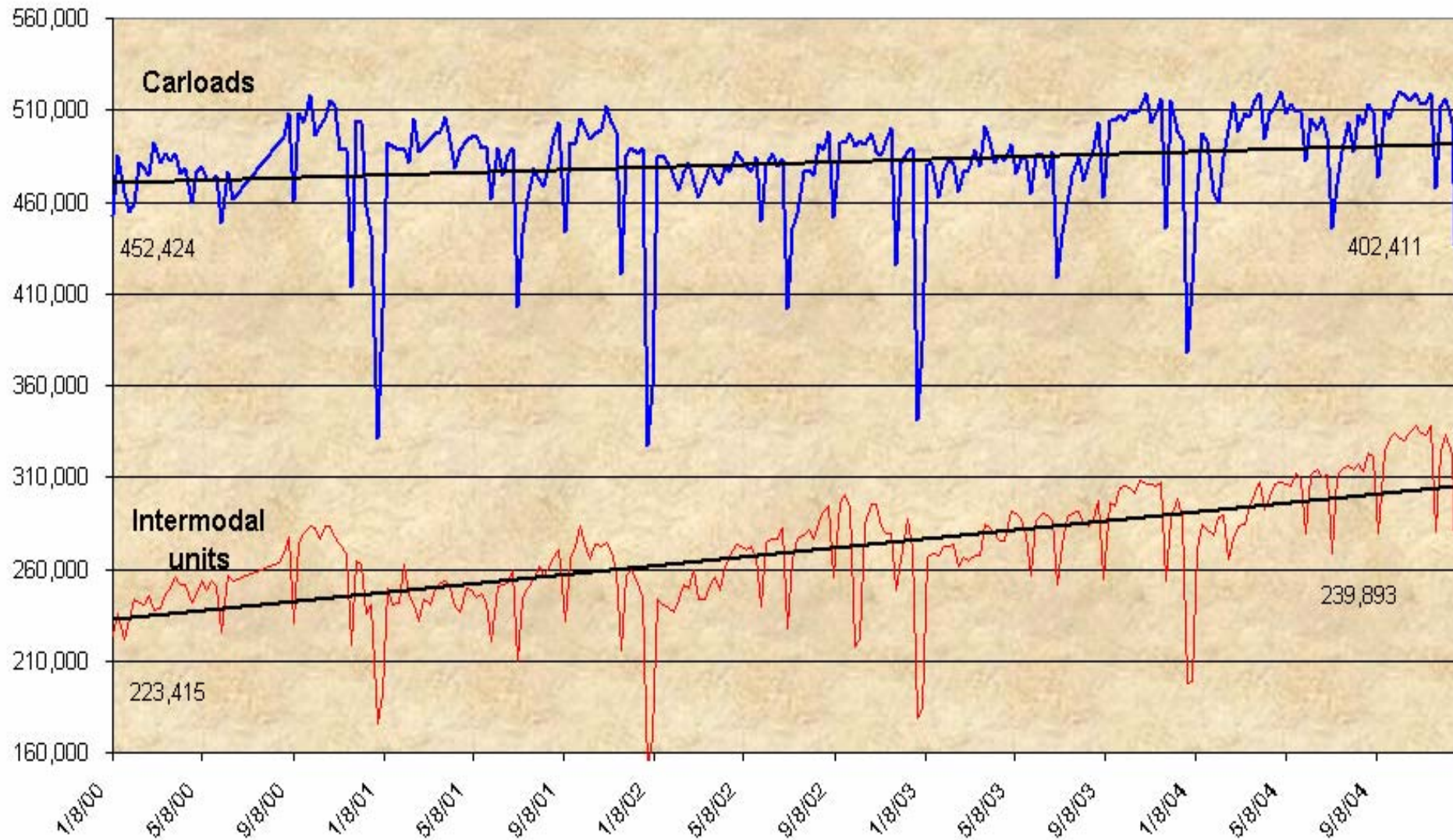
- 1980 Staggers Act deregulated railroads:
 - Allowed railroads to charge demand-based prices
 - Allowed carriers to abandon unnecessary lines
 - Anticipated that most rail movements would be exempt from regulation altogether
- Agency Exempted most commodities from regulation – including intermodal -- in 1980's
- Since 1980's, agency has almost no regulatory reach over intermodal movements

Traffic Volume

U.S. Class I Railroads

January 2000-December 2004

Source: AAR Weekly Traffic





2004 Board Rail Service Actions

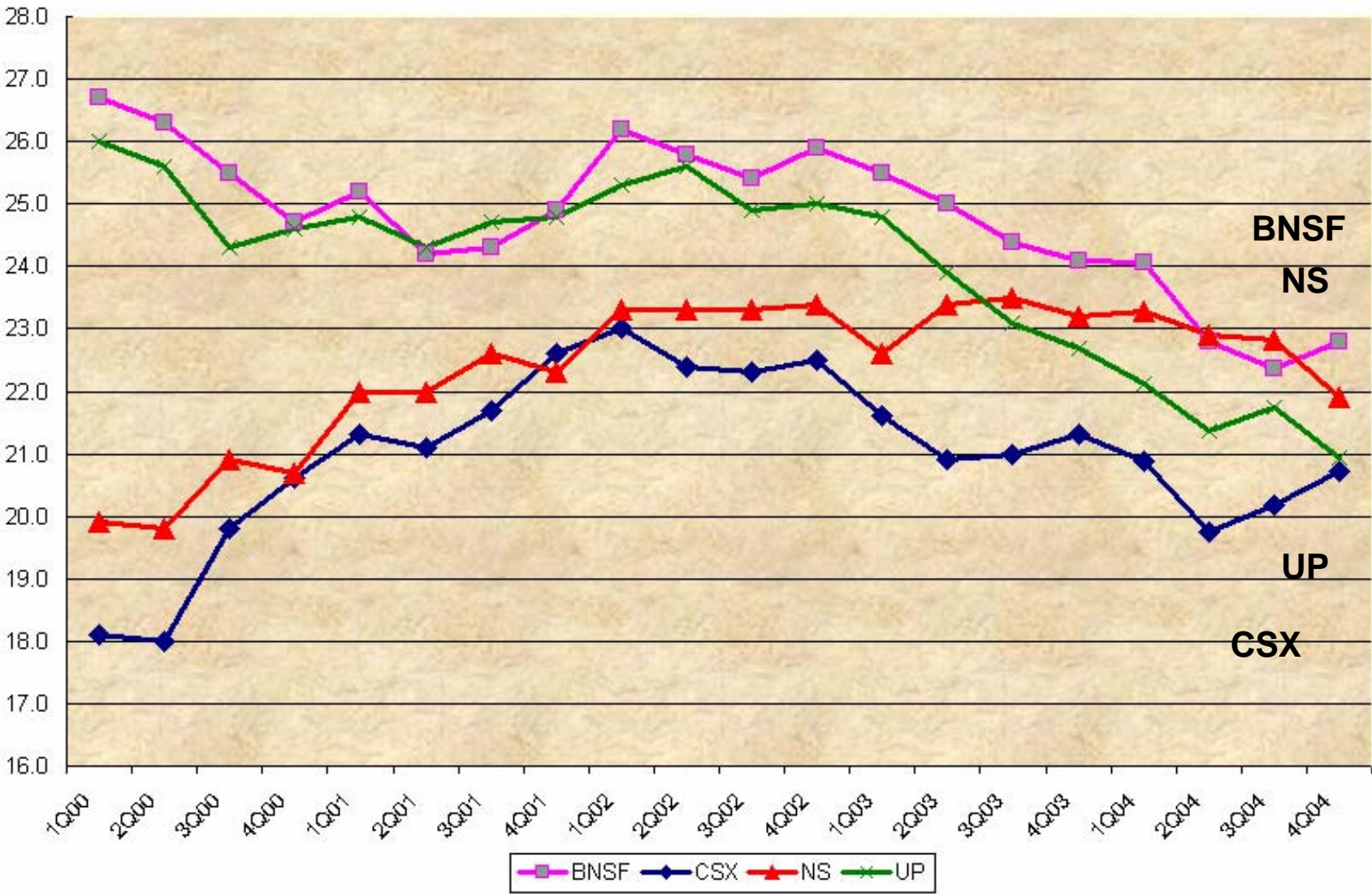
- Board carefully monitored rail trends and performance
- Urged open communication between railroads and shippers
 - San Francisco, Atlanta, Kansas City and Houston Service forums
 - Worked to resolve many smaller service complaints
- Asked railroads to submit their fall peak plans
- Worked with railroads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

Quarterly Average Train Speeds
 From First Quarter 2000 (1Q00) to Second Quarter 2004 (2Q04)





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



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



Long-Term Freight Railroad Issues



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

	Cost Of Capital	BNSF	CSXT	NS	UP	KCS	SOO	GT	IC
1996	11.9%	8.6%	8.9%	13.0%	9.3%	7.2%	23.5%	0.0%	15.2%
1997	11.8%	8.4%	9.8%	13.1%	5.2%	3.6%	12.3%	5.2%	15.8%
1998	10.7%	9.7%	8.1%	10.5%	2.9%	9.1%	4.9%	3.0%	13.6%
1999	10.8%	9.5%	3.8%	5.2%	6.8%	6.4%	2.5%	25.4%	10.0%
2000	11.0%	8.8%	3.6%	5.5%	6.9%	6.3%	5.6%	5.9%	5.9%
2001	10.2%	7.1%	4.6%	8.3%	7.6%	7.0%	5.9%	4.9%	4.9%
2002	9.8%	6.4%	5.2%	9.1%	8.6%	6.5%	5.7%	3.1%	3.1%
2003	9.4%	6.2%	4.0%	9.1%	7.3%	3.7%	.01%	4.5%	4.5%



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



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.



Board Resources 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

