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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

Carloads

Intermodal units

452,424
402,411
239,893
223,415
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

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<th>CSXT</th>
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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
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