Midwest Association of Rail Shippers

January 12, 2005
Doral Eaglewood Resort
Itasca, Illinois

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
- Improved customer service from carriers
- Examination of capacity constraints
- Focus on 25\textsuperscript{th} 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
Quarterly Average Total Cars-On-Line
From Third Quarter 1999 (3Q99) to Second Quarter 2004 (2Q04)
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)
Train and Engine Employees
Class I Railroads
January 2000-October 2004
Source: STB Wage Forms A&B
2005 Service Issues

- Union Pacific Service Failures
- Grain and Agriculture Production
- Carriers’ improved financial positions will increase pressure on rates and service
- 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 or modally-competitive
- Interstate Commerce Act laws and doctrine look at reasonableness
- Customers want fairness
- Responsibility is to system as a whole
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 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
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.
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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Resources for Shippers

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