



*Shippers Taking Charge in a Capacity  
Constrained Environment:*

*The Role of the STB in Railroad  
Regulation*

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# The RR's & the Surface Transportation Board

- Created by ICC Termination Act of 1995
- Born out of Deregulation Movement
- Residual economic regulation of the railroads
- Far smaller staff and scope of authority than the ICC





# STB Mission

- Exclusive authority to approve rail mergers
- Review rail rates and practices to ensure they are reasonable & non-discriminatory
- Approval and environmental review of
  - Construction of any new rail line
  - Abandonment of existing lines
- Rates for non-contiguous domestic water trade
- Rates for pipelines not carrying energy products
- Minor residual motor carrier collective rate making activities



# STB Responsibility - Rates & Service

- National oversight and monitoring of railroad practices
- Enforcement of RR's common carrier obligation
- Monitor rate reasonableness for captive shippers
- Calculate the RR's cost of capital
- Assist RR's in earning adequate revenues while allowing, to the maximum extent possible, competition to establish rates



# Rate Case Resolution Large Shipments

- Market dominance assessment
- Stand Alone Cost Test
  - Fact-based approach rooted in economic reasoning, approved by courts
- Look for strong cases with solid evidence
- Strive for balance between RR's need for adequate returns and shippers need for fair and reasonable rates



# Alternative Approaches

- SAC criticized
  - “Artificial” and “Overly complex”
  - Costly & time consuming
  - Feasible only for large shippers
- Alternative Approaches?
  - Hearing on SAC process
  - Proposed rulemaking on SAC changes





# Small Rate Cases

- No cases yet decided under small rate case guidelines
- BP/Amoco
  - Settled through mediation
  - Assisted in development of procedural rules
- Potential small rate case from state of North Dakota





# Year in Review Service Issues

- Closely monitored rail trends and performance metrics
- Assessed carriers fall peak plans
- Encouraged improved communications between RR's and shippers--including participating in Fall Peak Forum in St. Louis
- Board members and staff attended several site visits to shipper facilities





# Capacity & Congestion

- Problems of traffic congestion are multimodal
- Ports
  - Larger Vessels
  - Rapidly expanding international trade
- Rail capacity problem is of more recent vintage
- Economic regulation fostered excess capacity—especially on RR's





# Genesis of RR Capacity Problem

- Earnings improvement but all are not revenue adequate
- RR's "punished" by Wall Street for capital investment spending
- Infrastructure investments often failed to generate sufficient income for RR's
- Long term strategy to reduce size of work force
- Increased rail infrastructure is long-lived vs. demand increases which are short-lived

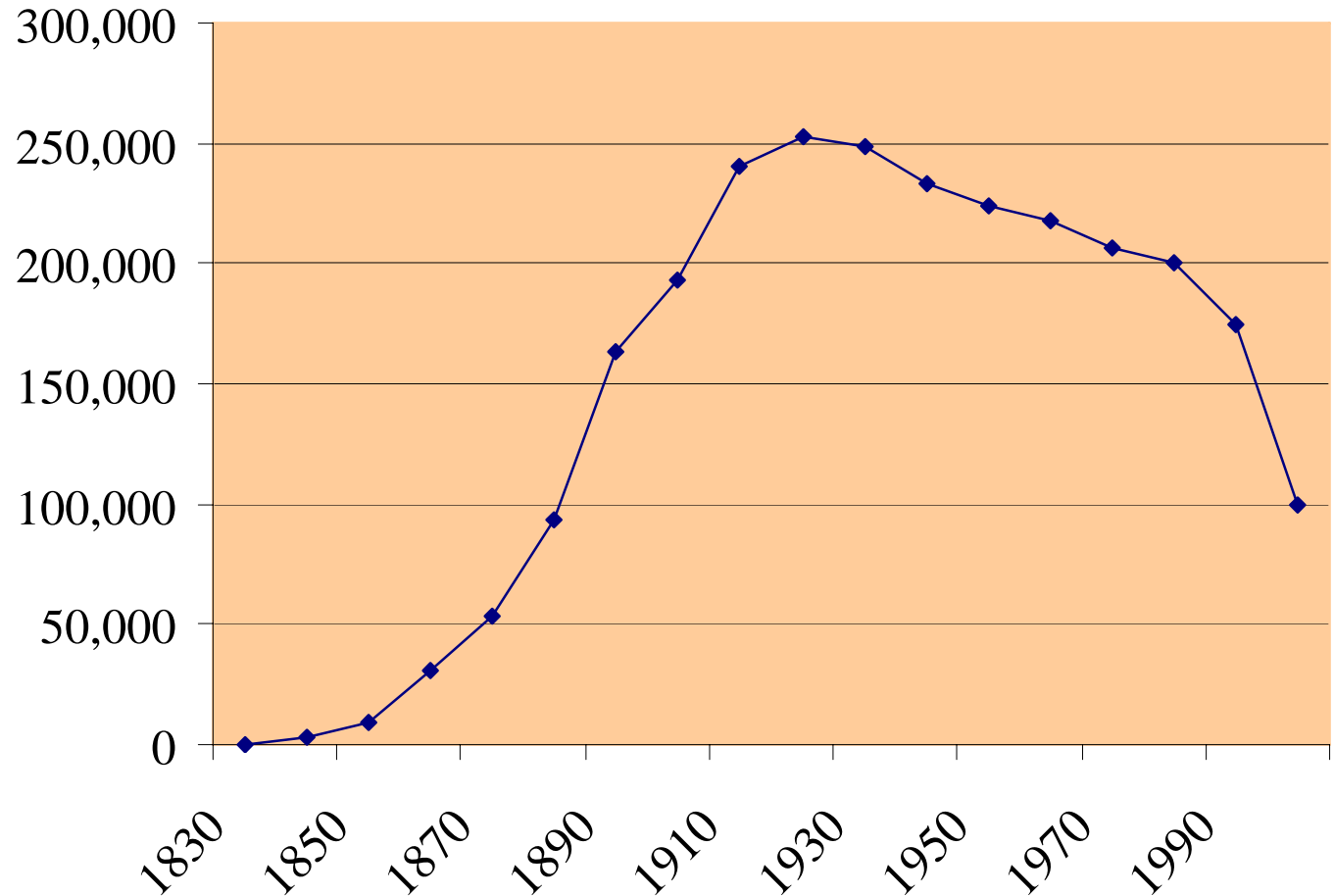


# The Developing Rail Capacity Crisis

- Shrinking workforce and infrastructure partly offset by productivity improvements however, continuous traffic increases absorb “excess capacity”
- Network becomes more vulnerable to stochastic events
- Results in a “perfect storm” or the rail version of global warming

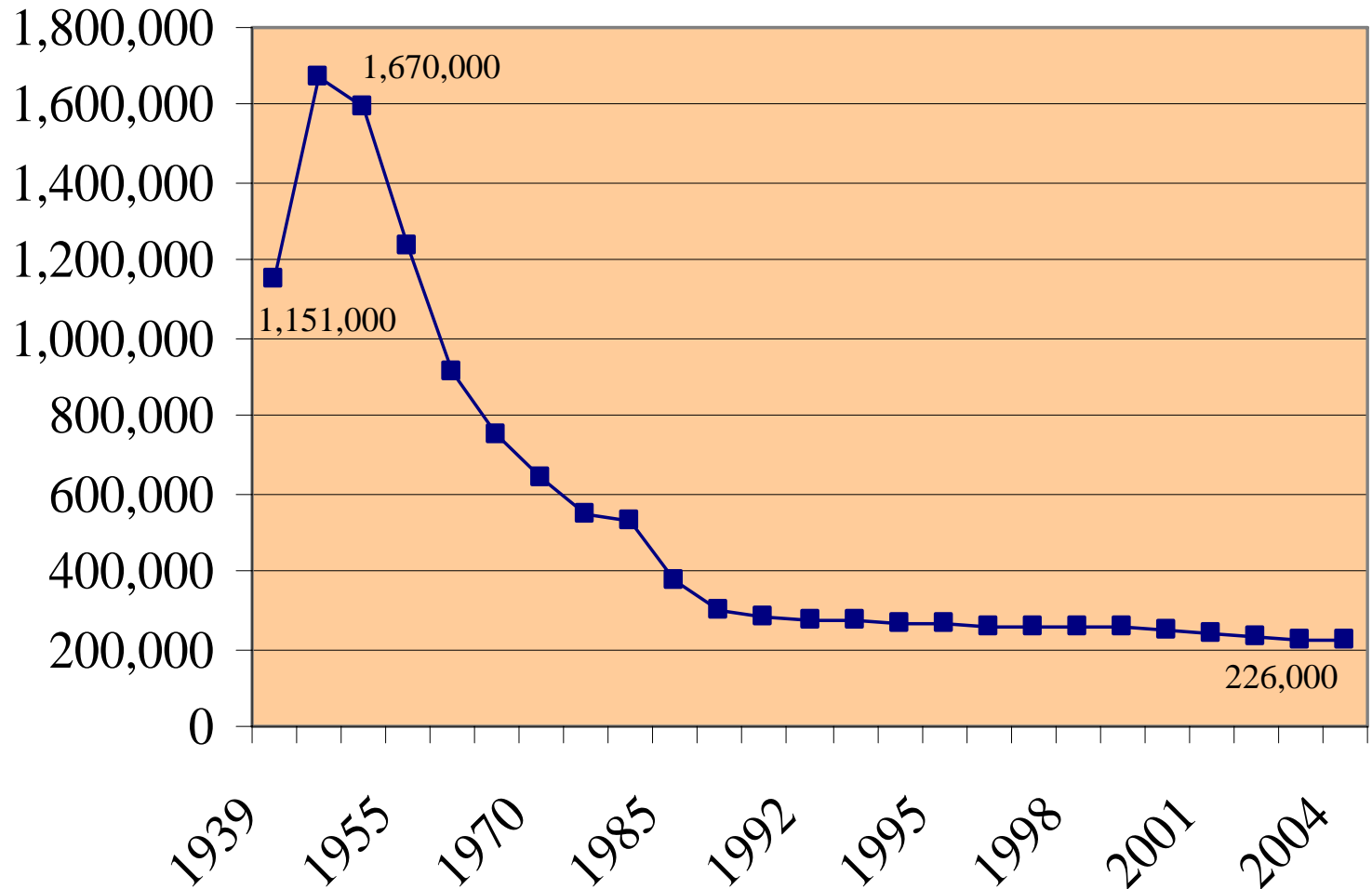


# Growth & Decline of Railroad Mileage



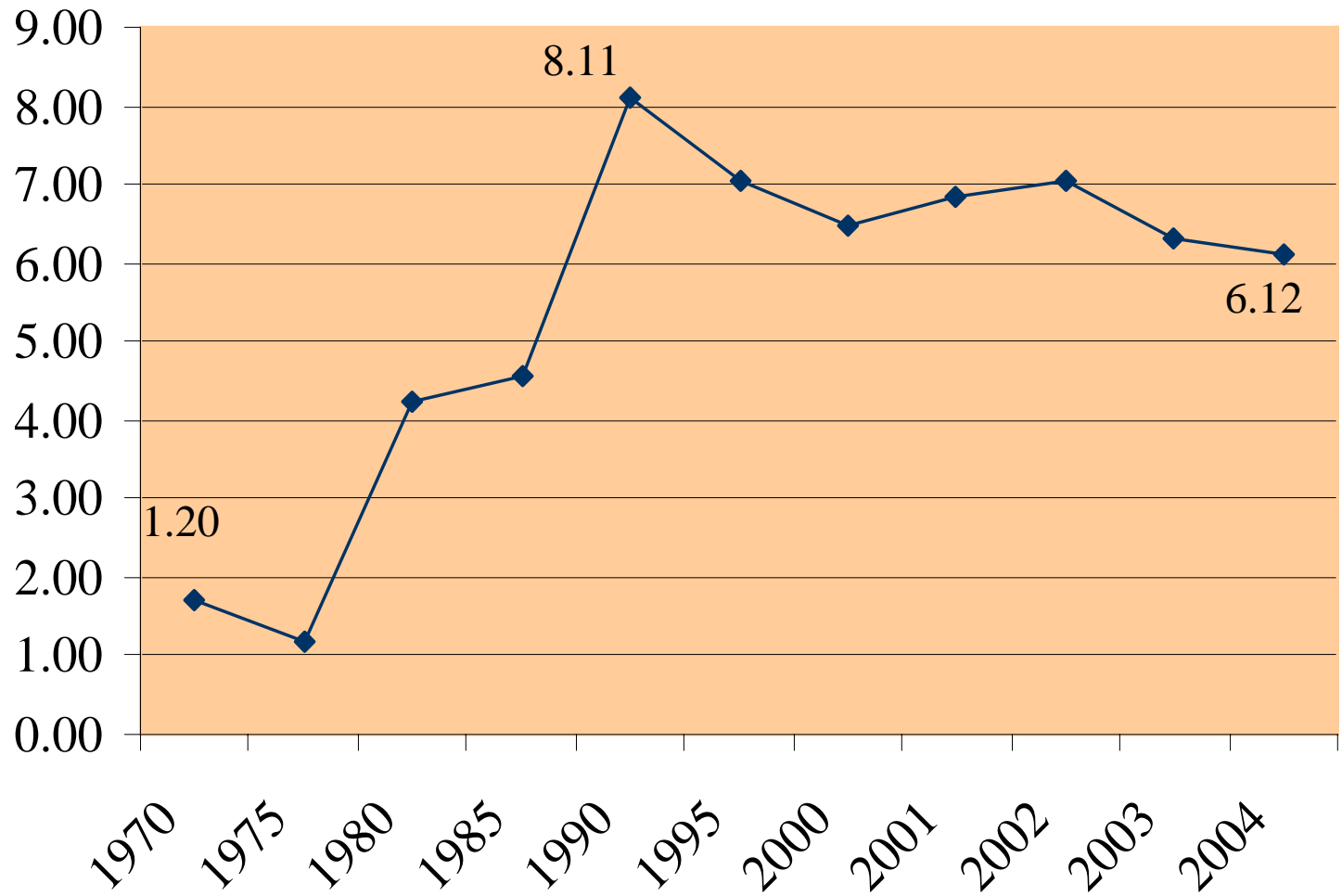


# Railroad Employment 1939-2004





# Railroad ROI 1970 - 2003





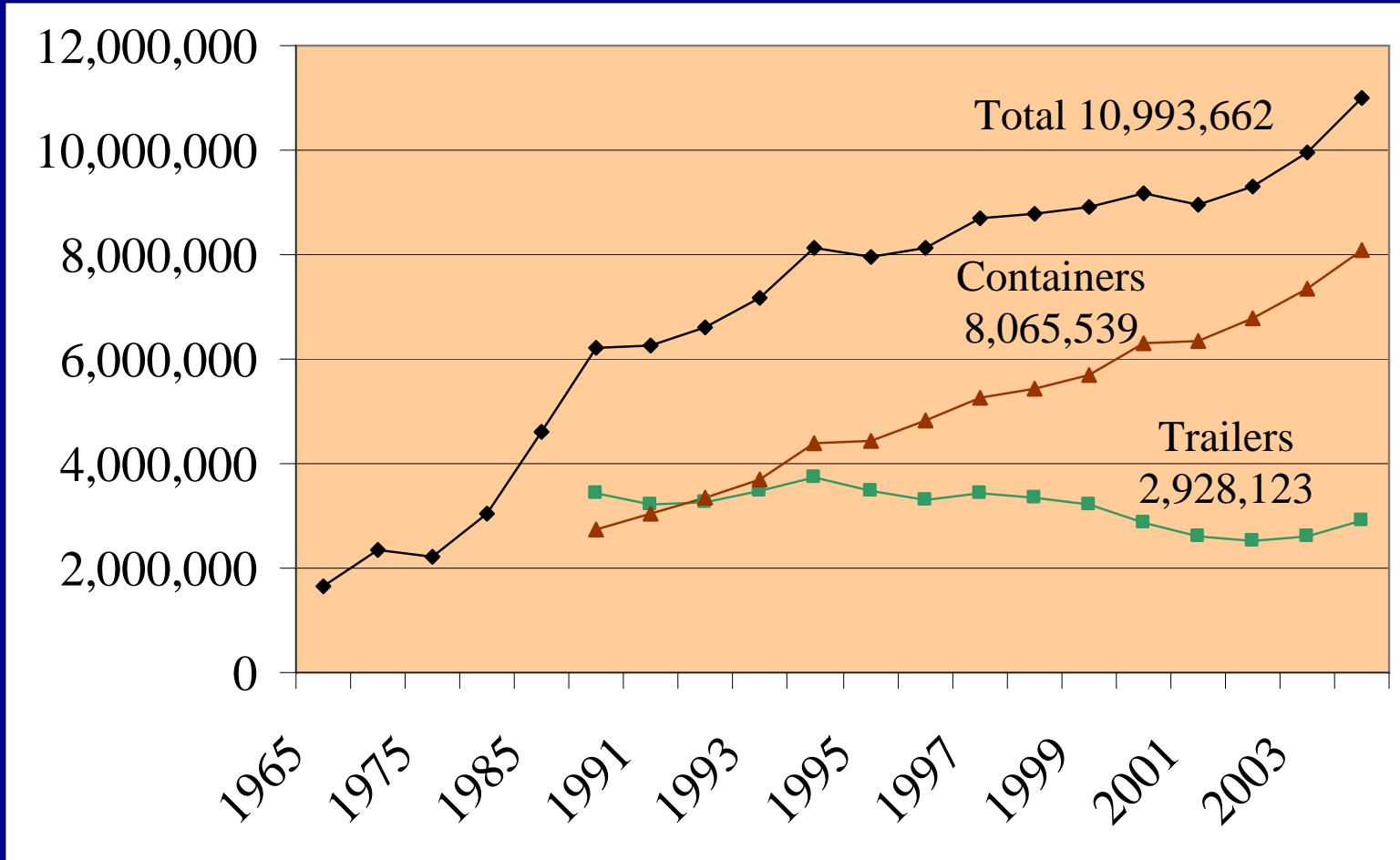
# Railroad Cost of Capital and ROI

	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%	0.01%	4.5%	4.5%
2004	10.2%	5.8%	4.4%	11.6%	4.5%	8.3%	3.3%	6.0%	6.0%



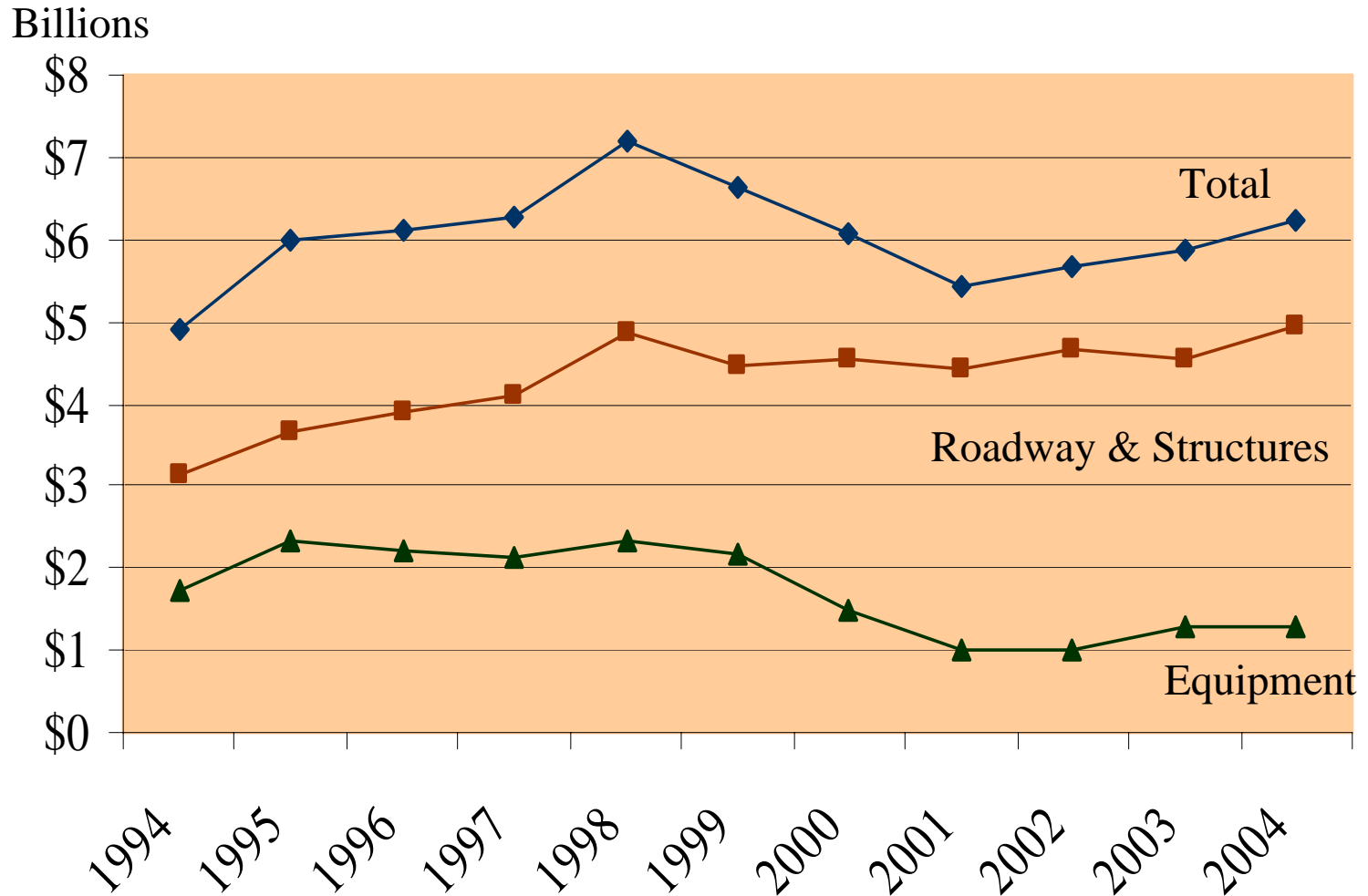


# Intermodal Shipments Beginning 1965





# Class I Capital Expenditures 1994 - 2004





# Short-term Capacity Problems

- Imports surge due to expanding economy
- Large grain harvests in 2003 and 2004
- Export coal market growth
- Wave of retirements created crew shortages
- Reduced equipment purchasing led to shortages
- Capital spending cutbacks
- Tight capacity in trucking industry
  - Driver Shortages
  - Higher Fuel Costs
  - HOS Rules



# Long-term Capacity Concerns

- Demand for freight rail transport to increase 60%-70% by 2025
- RR's inability to earn Cost of Capital
- Wall Street pressure to reduce Capital costs and improve ROI
- RR flexibility limited by long-term contracts
- RR's tendency to bid L/T contract rates down to L/T marginal costs



# RR's response to Capacity Constraints

- Increase in locomotive purchases & leases
- Accelerated crew hiring and training
- Some infrastructure expansion efforts
- Price rationing of available capacity
- RR's choosing who to serve vs. common carrier obligation





# Easing Congestion

- Increase physical infrastructure
- Adopt technological innovations
- Improve efficiency of existing facilities
- Promote shipper/traveler behavioral changes

*All have potential but all have limits*



# Infrastructure Capacity

- SAFETEA-LU – 2 years late, \$90 Billion short
- \$286.5 Billion over 6 years
  - 38% more than TEA-21 in 1998
  - Far short of \$375 Billion estimated need
- Contains rail title but far from intermodal legislation
- Expands the RIFF program to \$35 Billion, *makes shippers eligible*





# Rail Capacity Investment

- RR's support limited public sector role
- Public/Private partnerships
  - Alameda Corridor
  - CREATE
- RR Trust Fund concept
- Investment Tax Credits
  - Short Lines 286K car issue
  - Class I access and limited fiscal capacity



# What can shippers do?

- Support infrastructure investment spending
- Work with carriers to alleviate bottlenecks and chokepoints
- Work with the STB's Office of Compliance & Enforcement when problems arise
- Continue dialog with other shippers & shipper groups, e.g. RSTAC
- Communicate traffic demand forecast to carriers



# STB Rail Consumer Assistance Program

- Facilitates informal resolution to disputes with RR's
- Brings issues to RR's rapidly
- Solves problems without litigation
- Promotes rail service improvements
- 121 complaints handled in 2005, over 560 handled since program began in 2000



# Rail Consumer Assistance Program Contact Information

- Toll-free telephone 866-254-1792
- Written statement of the problem
  - Email: [railconsumer@stb.dot.gov](mailto:railconsumer@stb.dot.gov)
  - FAX 202-565-9011
- Web form at <http://www.stb.dot.gov/railconsumer.nsf/feedback?OpenForm>



Thank you. Questions?