



Roundtable on Transportation Policy

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**Railroad Industry Structure, Competition
and Investment**

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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) abandoning existing lines
- Motor carrier collective ratemaking 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
- Revenue Adequacy and Cost of Capital Determinations

Rate Case Resolution

- Determination of Market Dominance
- Stand Alone Cost Test—Fact Based Approach
Rooted in Economic Reasoning and Approved by
Courts
- No Substitute for Preparing a Strong Case with Solid
Evidence
- Ultimately a Balance Between the Need for
Railroads to Earn an Adequate Rate of Return and
Rates that are Fair and Reasonable

Alternative Approaches

- SAC Approach Has been Criticized as Artificial and Overly Complex
- SAC Approach is Very Costly and Time Consuming
- Only Feasible for Large Shippers—No Small Shipper Cases
- Is it Time to Look for Alternative Approaches—i.e., ICCTA & Staggers Anniversaries

Recent Changes in STB Procedures

- Greater Openness—Voting Conferences, Hearings, Oral Arguments
- Increased Reliance on Mediation
- Expedited Discovery Procedures
- Outreach (Powder River Basin, Houston, et al.)

Concerns About Rail Service This Fall

- Carefully monitoring rail trends and performance—collecting metrics
- Facilitating better communication between railroads and shippers –Fora around the nation
- Asked Class I RRs to submit their fall peak plans
- Working with railroads and shippers on service issues

Capacity Constraints – Short-term Causes

- Increased rail demand and tightness in rail capacity
 - ✓ Expanding economy and increased imports
 - ✓ Large grain harvests in 2003 and 2004
 - ✓ Shortage of crews 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 Issues

- Future demand for freight movement predicted to increase—70 percent increase by 2020
- Challenge for nation to develop the infrastructure to meet that projected demand
- Constraints on railroad capital investment
 - Railroads inability to earn cost of capital
 - Demands of investors leading to less investment
 - Under capacity and over capacity at the same time
- Demands of changing freight flows

Public Investment in Rail Infrastructure

- Railroad's Are Not Earning Cost of Capital
- Causes: Extraordinary Costs (FELA, RR Retirement); Revenue Constraints (Subsidized Competition, Long Term Contracts)
- Is there a Need for Greater Public Investment?
- Railroad Trust Fund Solution
- Class I Railroad Concerns about larger Public Government Role in Infrastructure Investment
- Short Line RRs and the 286K lb. Car Problem

Outlook for Peak Season 2004

- Railroads bringing resources online
- Key questions
 - ? Harvest
 - ? Imports
 - ? General economic activity
 - ? Unforeseen issues
 - ? Can railroads perform

STB and Rail Mergers

- Mergers in Post-Staggers Era
- STB Merger Policy in the 1990s
- The Merger Moratorium
- Category of Merger Transactions
- Mergers on the Horizon

