

# WCTL: STB Regulation – Problems and Concerns

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A photograph of a freight train traveling through a rural landscape. The train consists of a yellow and black locomotive pulling a long line of black coal cars. The tracks run parallel to a dirt road on the left. The background shows rolling green hills under a clear sky.

# WCTL Background Service Rate Regulation Revenue Adequacy Overview



14 Electric Utilities

150+ Million Tons of Western Coal

Active in Almost Every Major  
Proceeding at STB since the  
Staggers Act

WCTL

WCTL members are dependent on reliable efficient service to “keep the lights on”

Railroad service problems are not new 1993, 1997, 2005 and now 2013-2014

# Service

STB need to be more proactive

Railroads often seem “surprised”  
by service difficulties

Service

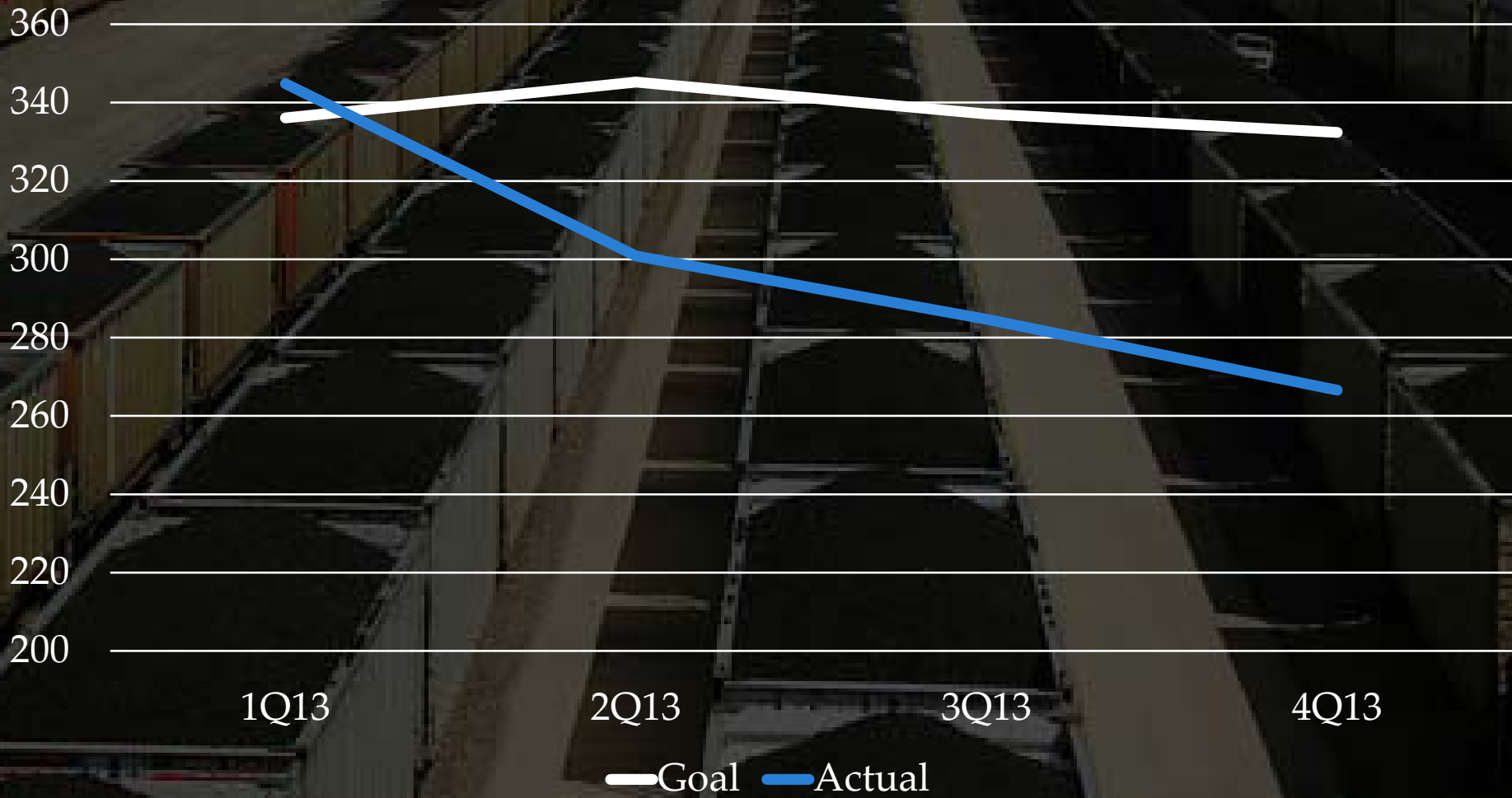
Latest service problems

BNSF struggles

Utilities concerned that there will  
be no coal thereby jeopardizing  
electric reliability

2013-2014

## BNSF Coal Car Miles Per Day





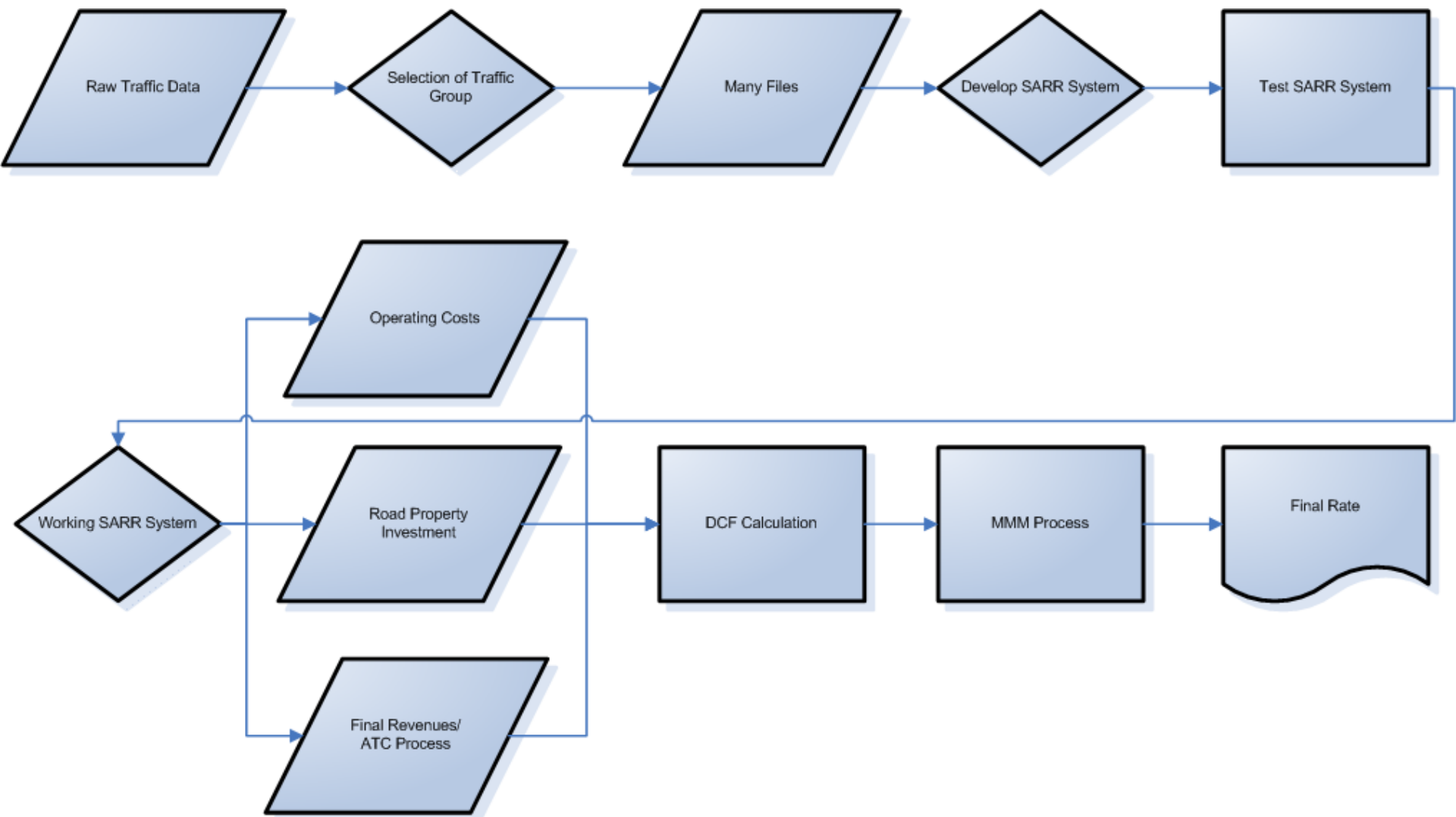
STB rate case process=complicated

STB's rules making the process worse

Some rate case standards and results defy logic

# Rate Regulation



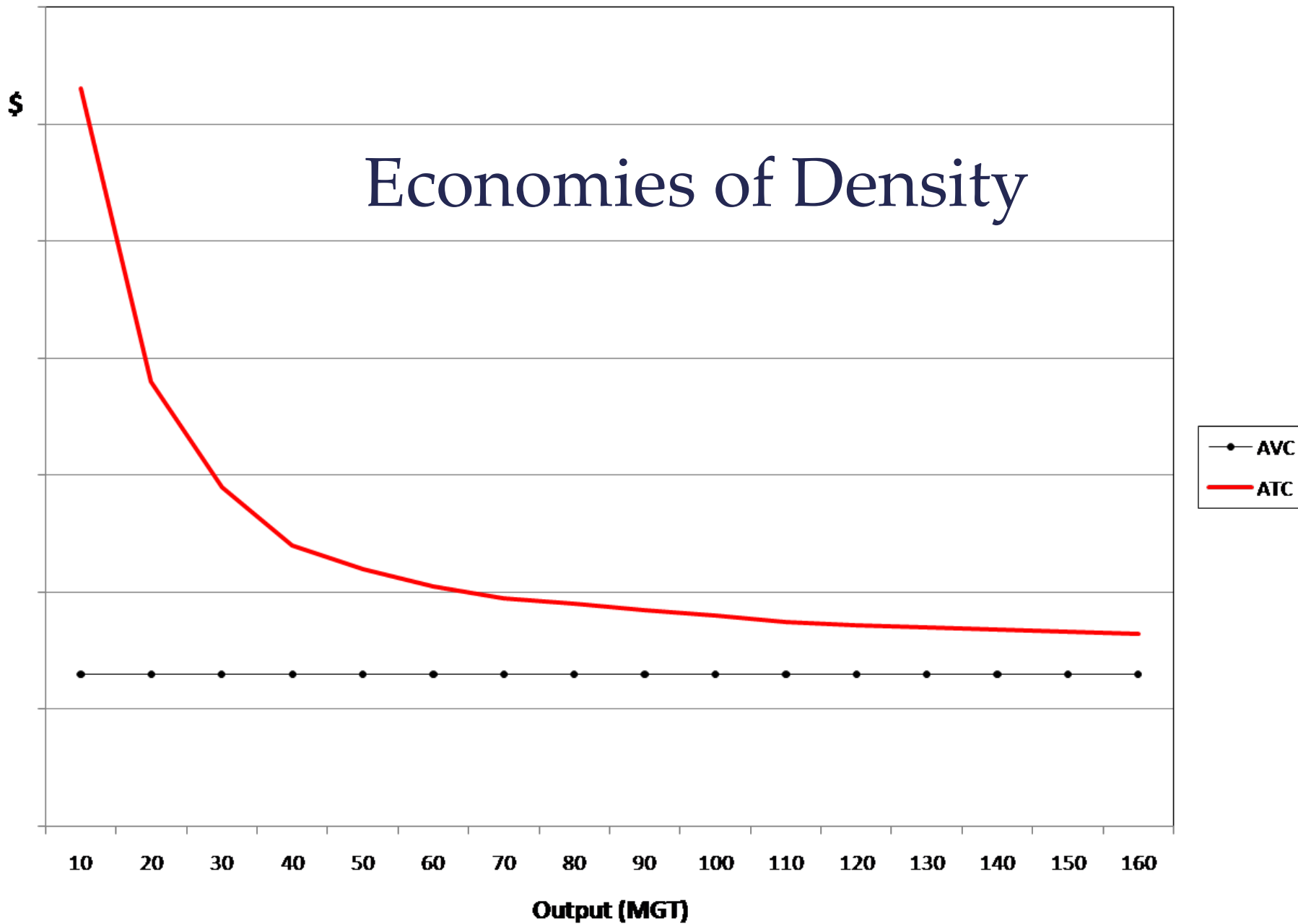


# Stand-Alone Cost Steps

Economies of Density  
Illogical Outcomes

Form Over Substance

# Economies of Density





# Low Density Segments Earn Higher Profits Per Ton Than High Density Segments

## Comparison of Revenue Division

### Methodologies Movement R/VC = 1.50

<u>Item</u> (1)	<u>Original/ Alternative ATC</u> (2)	<u>Modified ATC</u> (3)
1. Revenue	\$15.00	\$15.00
2. SARR Total Costs	\$6.25	\$6.25
3. Residual Incumbent (“RI”) Total Costs	\$7.50	\$7.50
4. SARR Density	High	High
5. RI Density	Low	Low
6. SARR Division	\$6.82	\$7.27
7. RI Division	\$8.18	\$7.73
8. SARR Profit	\$0.57	\$1.02
9. RI Profit	\$0.68	\$0.23
10. Result	<b>Illogical</b>	<b>Logical</b>



Was this man fooled?

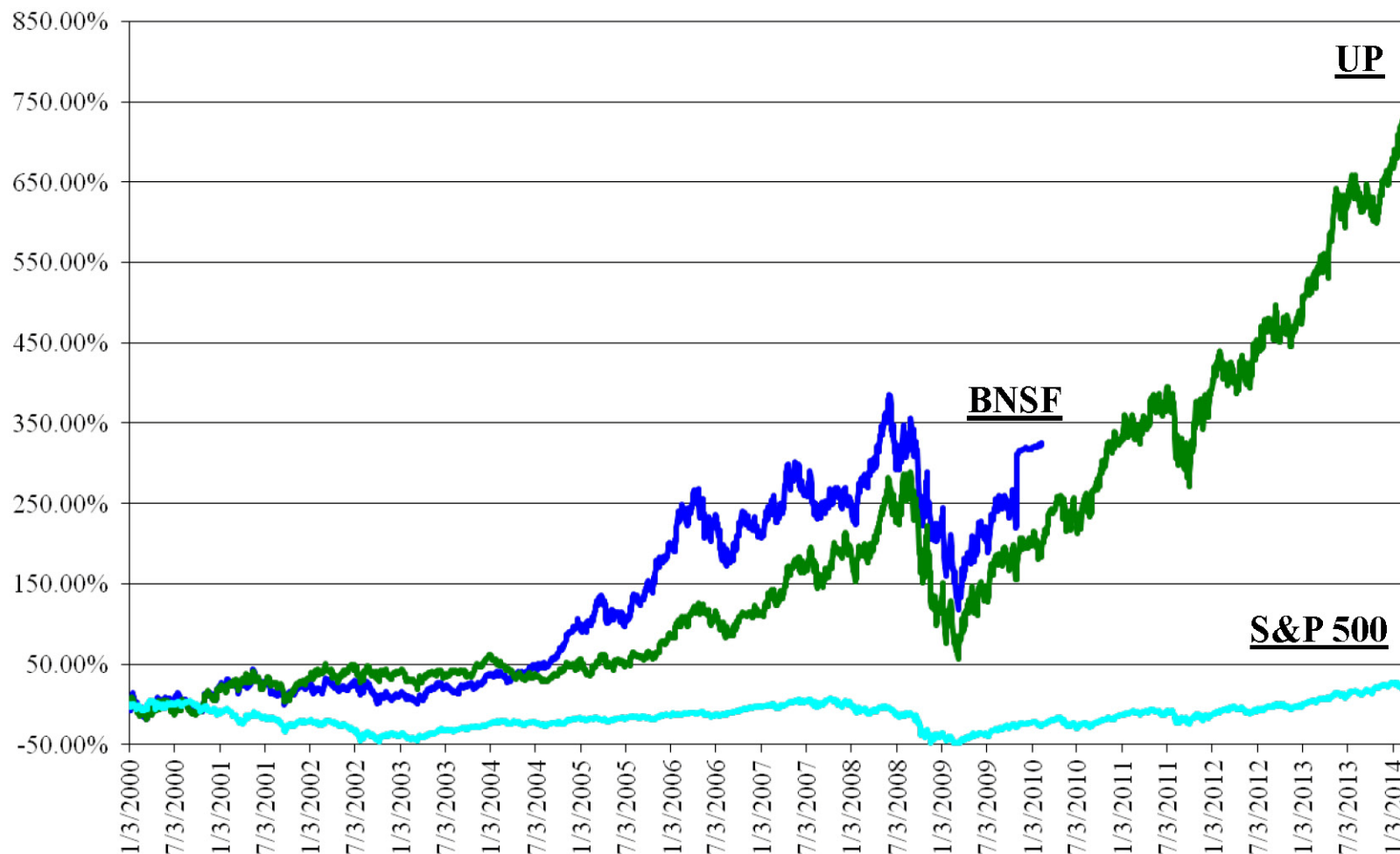
Under the STB's standards, BNSF  
had only been revenue adequate  
once in the 15 years before the  
Berkshire acquisition

Standards don't line up with  
reality

# COC/Revenue Adequacy



# The return on UP and BNSF common stock significantly out performed the market reflecting the railroads' financial health



Note: BNSF stock discontinued trading on February 12, 2010 upon completion of its acquisition by Berkshire Hathaway Inc.

STB should follow markets –  
CAPM

Mixed CAPM/Multi-Stage DCF  
overstates revenue requirements

# Cost of Capital

Year	STB Current Cost of Capital	ROI			
		BNSF	CSXT	NS	UP
2010	11.03%	10.28%	10.85%	10.96%	11.54%
2011	11.57%	12.39%	11.54%	12.87%	13.11%
2012	11.12%	13.47%	10.81%	11.48%	14.69%

# Revenue Adequacy

Year	CAPM Cost of Capital	ROI			
		BNSF	CSXT	NS	UP
2010	10.15%	10.28%	10.85%	10.96%	11.54%
2011	9.78%	12.39%	11.54%	12.87%	13.11%
2012	8.69%	13.47%	10.81%	11.48%	14.69%



What ratemaking standards will the STB apply if railroads are revenue adequate?

Revenue Adequacy

Thank you