



# ***SURFACE TRANSPORTATION BOARD***

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## **Transportation Research Board** **Committee for a Study of Freight Rail** **Transportation and Regulation**

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# What is the STB?



- Bipartisan board established Jan. 1, 1996
- Assumed some (not all) functions of abolished Interstate Commerce Commission
- Organizationally housed in U.S. DOT
- Led by 3 Board Members
  - Appointed by president; confirmed by Senate
  - Serve 5-year terms
  - No more than 2 from same political party
  - Decisionally independent – relationship with Congress and Federal courts
- Staff of 140 (economists, attorneys, analysts)

# What Does STB Do?

- Freight Rail:
  - Entry and Exit Licensing
  - Rate and service disputes
  - Restructuring (M&A)



- Amtrak (use of others' track, cost allocation)

- Passenger rail



- Other modes (limited jurisdiction):

- Non-energy pipelines
- Intercity bus carriers
- Household goods movers
- Trucking companies (collective activities)
- Water carriers (U.S. mainland to AK/HI/territories)



# History of Rail Industry Regulation

- Interstate Commerce Commission: began regulating economic activity of freight railroads in 1887
- Late 1970s: Rail industry in a financial crisis
  - Not earning enough revenue to cover costs
  - Network deteriorating
  - On verge of bankruptcy
- Excessive regulatory oversight by the ICC considered a major contributing factor



# De-Regulation

- 4-R Act (1976) & Staggers Act (1980): Congress de-regulated rail industry
  - Many of the ICC's oversight functions streamlined or eliminated
- 1980 – 1995: De-regulation successful; health of rail industry improved
  - Consolidation of carriers:
    - 37 Class I's in 1980; 11 in 1995
  - Unprofitable lines abandoned
  - Railroads given freedom to set rates
- 1995: Congress determined no longer a need for ICC



# STB Oversight - Rail

- Rail carriers considered “common carriers”
- Virtually all market structure transactions involving railroads must be approved
- This includes:
  - Operation of rail lines
  - Ownership or lease of rail lines
  - Construction of rail lines
  - Abandonment of rail lines
  - Mergers and acquisitions of rail carriers



# STB Oversight - Rail

- STB required to help railroads achieve revenue adequacy
- Service issues
- Unreasonable practice complaints
- Preemption



# Rail Customer & Public Assistance

- Attempts to resolve disputes between railroads and shippers, or railroads and public, on an **informal** basis
  - staff of attorneys, former railroad and shipper employees
    - use contacts w/in industry and expertise
    - mediate disputes when necessary
  - free and confidential
  - alternative to litigation
- More structured ADR also offered





# Rates Under De-Regulation

- Shipper must file complaint
- Tariffs vs. Contracts
- “Demand-based differential pricing”
- Board has to balance

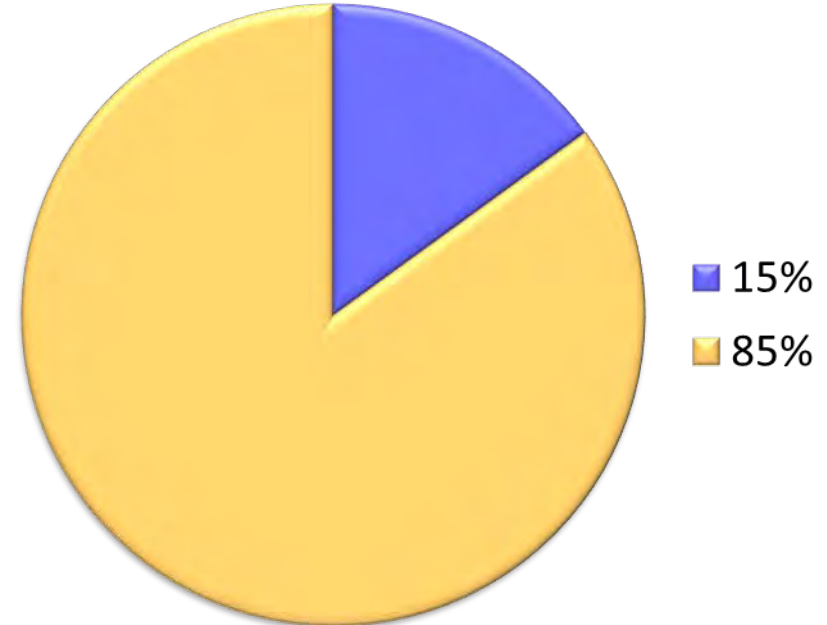


# Rate Challenge Requirements



# What Is Regulated?

- 180% R/VC Threshold
- No contracts
- Exempt
- About 15% left



# Rate Complaints



# SAC Constraint

- Nearly all STB cases have been SAC
- Fits with economic theory
  - Contestability



# SAC Result

- Purpose of SAC
- Grouping
- ***Complainant does not have to rebuild existing rail configuration***
- Compare Costs to Revenues

# Simplified SAC



# Three Benchmark Rate Cases

- Benchmarks
  1. RSAM
  2.  $RVC > 180$
  3. Comparison Group
- Final Offer Arbitration





# Concluding Thoughts on Rate Cases

- Shippers entitled to rate relief should get it
- Shippers not entitled to rate relief should not
- Our concerns:
  - The costs of making a rate case presentation
  - Increasing complexity
  - Accuracy of the estimates



# Questions?

