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?