

CUTTING REGULATORY RED TAPE AT THE STB

RAIL CUSTOMER COALITION

The **Surface Transportation Board (STB)** can save time and resources by replacing its outdated and overly burdensome **Stand-Alone-Cost** rate standard with a market-based alternative called **Competitive Rate Benchmarking**

HOW THEY STACK UP

STAND ALONE COST



Bureaucratic

Requires a shipper to create, on paper, an entire railroad business, with every detail subject to litigation.



Illogical

Requires shippers to show that the hypothetical railroad could serve the same traffic at a lower rate than the existing railroad.



Wasteful

Costly, time consuming work required for each case, with countless hours spent by lawyers, consultants and STB staff.

VS

BENCHMARKING



Market Based

Draws on real world data to develop benchmarks for competitive rail rates.



Economically Sound

Compares a challenged rate to a benchmark rate for similar shipments in competitive markets.



Cost-Effective

Once models are developed, rail rates can be quickly compared to competitive benchmarks.

RATE BENCHMARKING

RAIL CUSTOMER COALITION

THE GOAL

Reduce the regulatory burden for both businesses and taxpayers by adopting a straightforward, market-based alternative to the Surface Transportation Board's (STB) outdated and onerous rate review standards.

REGULATORY QUAGMIRE

Burdensome regulatory procedures prevent the STB from fulfilling its mandate to ensure reasonable rates for rail shippers that lack access to viable transportation options. The heart of the problem is the Board's **arcane Stand-Alone-Cost (SAC)** standard, which is used for determining the reasonableness of rail rates. To successfully challenge a rate, a shipper must design, on paper, an entire railroad business, and prove that it could serve the same traffic at a lower cost than the rates charged by the existing railroad.

Recent SAC cases have taken an average of 5 years to complete and cost each shipper well over \$5 million. The STB's Acting Chairman, Ann Begeman, has declared that the Board's rate review process "is too costly, too time consuming, and too unpredictable."

SAC fails on economics grounds as well. In fact, Professor Gerald Faulhaber, the economist who first defined the SAC concept has testified to the Board that "The use of the stand alone cost test for STB rate making in the freight rail industry has no economic validity."

MARKET BASED SOLUTION

Competitive Rate Benchmarking offers a **market-based** alternative for STB rate reviews. Under this approach, rail shippers that lack access to competitive transportation options could compare their rates to "benchmarks" for competitive rail traffic. The STB would judge the reasonableness of rates using real world data on rates charged in competitive markets rather than hypothetical data derived from a fictitious railroad.

As they do now, railroads would remain free to set rail rates in competitive markets. A captive shipper, however, could challenge a rate that is substantially higher than its competitive benchmark. The STB would determine whether and to what extent such higher margins are necessary for the railroad to be financially strong, to maintain its network and to attract capital.

COST EFFECTIVE & ECONOMICALLY SOUND

Rate benchmarking is a win-win option for businesses and taxpayers. It will dramatically reduce the amount of time and money it will take for addressing unreasonable rates that are a result of monopoly pricing. Simply put, benchmarking is a more streamlined, rational approach that will no longer require shippers, railroads and the federal government to sink millions of dollars into rate cases.

The concept of rate benchmarking is well-grounded in economics and widely-employed by businesses and government agencies. In fact, using benchmarking to address skyrocketing freight rail rates was endorsed in a 2015 report by the National Research Council's Transportation Research Board.

SUPPORTED BY AMERICAN BUSINESSES

In addition to the backing of economic and policy experts, rate benchmarking has the strong support of the Rail Customer Coalition, which represents the largest users of freight rail service and a broad cross section of American manufacturers, farmers and energy producers.

