RAIL POLICY REFORM: RATE BENCHMARKING

RAIL CUSTOMER COALITION

A MARKET-BASED APPROACH FOR COMPARING FREIGHT RAIL RATES

The Surface Transportation Board (STB) needs a sensible and streamlined process to address exorbitant rail rates that harm American farmers, manufacturers, and energy producers.

Rate Benchmarking provides a straightforward, market-based alternative to the outdated and onerous rate review standards used by the STB. By adopting this approach, the Board would be better equipped to help "captive" shippers that lack competitive transportation options to obtain reasonable rates from railroads.

RATE BENCHMARKING IS:

Economically Sound

Transparent

Flexible

Less Burdensome

COMPARING METHODOLOGIES: THEN AND NOW

STB's rate review standards are used to determine whether rail rates are "reasonable" when a complaint is brought before the Board. These standards are supposed to provide the Board with a workable process for understanding how the lack of competition impacts a captive shipper's rates. The STB has recognized that its current methodology is far from workable and the Board is now looking for better options – that's where Rate Benchmarking can help.

Current Methodology: **Stand-Alone Cost (SAC)**

The Board's current Stand-Alone-Cost (SAC) standard compares a captive shipper's rates to the cost of building and operating a hypothetical new railroad.

Under this burdensome standard, rate cases have turned into costly legal quagmires, costing shippers and railroads millions of dollars and often taking five years or longer to resolve.

VS

Proposed Methodology: **Rate Benchmarking**

Rather than attempting to mimic competition from a fictional railroad, Rate Benchmarking employs a consistent and transparent method to compare captive rates to real-world rate data from competitive rail markets. It relies on facts, not fiction, to evaluate rates.

The STB could use such a method to resolve a rate case in a matter of months, and at a fraction of the cost of any existing rate case method.

HOW RATE BENCHMARKING WORKS

STEP 1 Compare shipper's rate to a competitive benchmark

The Benchmark Method uses real-world data to determine the rate a shipper would expect to pay in a competitive transportation market for a similar movement. The STB already collects such market data through its Carload Waybill Sample, which consists of more than 500,000 railroad shipment records for each year.

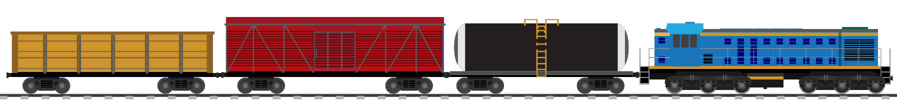
By comparing its actual rate to its competitive "benchmark," a captive shipper can see how much extra it pays solely because it lacks transportation options.

STEP 2 Determine whether the higher, non-competitive rate is needed to protect railroad revenues

Competitive benchmarks provide a starting point for rate reviews. The STB must then determine whether a higher rate charged to a captive shipper is reasonable.

The Benchmark Method calculates the amount of additional revenue that a railroad needs in order to cover its costs, attract investment, and be financially sustainable. This yields a Competitive Threshold, or multiplier above competitive rate levels, required to protect the railroad's revenue adequacy. A captive shipper could challenge a rate that exceeds the competitive level by more than this Competitive Threshold.

MOVING FORWARD



Under the Staggers Rail Act, Congress expressly charged the STB to put a check on monopolistic practices while keeping railroads financially strong. Rate Benchmarking balances these goals by allowing market forces to set rates wherever possible. A railroad may charge above-market rates to captive shippers, but only to the extent needed to be financially sustainable.

The STB should initiate an open and transparent rulemaking proceeding to consider the Benchmark Method. Input from all stakeholders will help the Board develop an economically sound and workable rate review standard.

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